Hero MotoCorp Ltd

Q4 FY-15 Earnings Conference Call

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MODERATOR: **MR. RAHUL ARORA – NIRMAL BANG EQUITIES**

MANAGEMENT: **MR. RAVI SUD – HERO MOTOCORP LTD**
MR. SURENDER CHHABRA – HERO MOTOCORP LTD
MR. A. SRINIVASU – HERO MOTOCORP LTD

Moderator: Ladies and gentlemen, good day and welcome to the Hero MotoCorp Ltd. Q4 FY-15 Earnings Conference Call hosted by Nirmal Bang Equities. 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. Please note that this conference is being recorded.

I would like to hand the conference over to Mr. Rahul Arora from Nirmal Bang Equities. Thank you, and over to you, Mr. Arora.

Rahul Arora: Thanks for that. Hi, and a very warm welcome to all the participants on this call. I would like to thank Mr. Sud and his colleagues, Mr. Chhabra and Mr. Srinivasu, for taking time out to address this call. I believe the results have just been put out. So, I would request Mr. Sud to make his opening comments and his colleagues and thereafter we can open-up the floor for question and answers. Mr. Sud over to you.

Ravi Sud: Thank you, Rahul. Good evening to everybody. Just to give up heads up because most of you would not have seen the results they have just come on exchange. If you go over volume, volumes for the quarter have been 1.75 million versus 1.89 million, there was a decline of 1% in the volume.

As far as the turnover is concerned for the quarter, it is INR 6,793 crores versus INR 6,501 crores. There is an increase. As far PBT is concerned the PBT is about INR 841 crores versus INR 741 crore. And the PAT which we have reported, is INR 476 crores versus INR 555 crores. Now there is a decline, but this is because of an extraordinary exceptional item of 155 crores which related to EBR.

And the earnings per share for the quarter is INR 127 before special items and earnings per share for the year is INR 127.23, without exceptional item. And if we factor in the exceptional item then it is INR 119.46,

And keeping in mind the strong performance of the company the board has today recommended a final dividend of INR 30, making the total dividend at INR 60 for the full year. This is in line with the payout ratio of past three to four years, between INR 50 to INR 60. Actually this works to 66%.

In terms of future plans there is an investment of more than INR 3,000 crores which is planned in FY2016 and FY2017 to build new capacities in India as well as for our international foray in the next two years.

Apart from this, I will stop it here, and I would request that we could start that Q & A session.

Moderator: Thank you. First question is from the line of Jay Kale from Elara Capital. Please go ahead.

Jay Kale: Yes. Thanks for taking my questions. So my first was regarding your other expenses. They have increased sharply on a sequentially basis. If you could throw some light what would be the marketing expenses in that ? And are there any other one-offs in those other expenses?

Surender Chhabra: Jay, in regard to other expenses, as we said, as a percentage to sales this is 13.17% for the quarter and if you see for the whole year is 11.39%. Quarter-to-quarter yes, jump is of 1.75% but year-to-year it is 1.15% only.

On quarterly basis if I see the expenses, certain expenses which are variable to the numbers, like packing and forwarding, outbound logistics, then warranty, service, so that expenditures increase in line with number of motorcycle.

But this time, yes our publicity spend is slightly higher than the previous year, which is, I think 0.5% more than the previous year comparatively. And on quarter-to-quarter, also in last two quarter the spend is higher than compared to the first two quarter. So that is why the expense is slightly higher.

Jay Kale: Sir how should we see this going forward in terms of your marketing expenses, ad expenses ? Should this continue going forward, the last two run rate?

Surender Chhabra: Even if you see in the last con call, not previous quarter, but previous to previous quarter, we told that once we are moving globally we have to spend for the brand and that is why our expense on the marketing will be slightly higher for one or two years.

Jay Kale: Okay. And if you could quantify your LEAP Program benefits for the quarter and for the year?

Ravi Sud: Okay. Ravi Sud here. Just to add on to Mr. Chhabra said looking at our non-core advertisement and publicity, it has been generally about 2%. And if you look at, the last many years, we are either 1.95% or 2.1%, 2.15%. This year as Mr. Chhabra said, our expenditure on advertisement and publicity is close to 2.47%.

And keeping in mind our long-term vision of entering 50 markets in the next four to five years, I think our spend on marketing maybe in the range of 2.25% to 2.4%. That is, I think, the guidance which we can give.

Now coming down to your second issue of LEAP Program, I will share with you that LEAP Program, on a standalone basis for the financial year ending March 15 have contributed 118 basis points. In terms of value, it works out to INR 326 crores.

Jay Kale: For the full year?

Ravi Sud: Yes, for the full year. And for the FY2016 we are expecting an additional incremental of INR 200 crores to INR 225 crores.

Jay Kale: Okay. And just one last question on your exports volumes. Do you see this target of 1 million units by FY2018 being downward revised considering that you have just around 200,000 in FY2015 so you would need a five-fold increase in your exports? Or are the plans very much in place?

Ravi Sud: Okay. You see there are few markets which we are planning to enter in FY2016 which are the large markets, like Argentina, Mexico, Nigeria. We did not enter in these market. And if you notice that in FY2015 there is a growth of more than 50% in our volumes; and even for FY2016, our target is that we should grow more than 50% in volumes.

Now as far as our volume for future is concerned, as we have stated earlier that by 2020 we expect the total volumes of the company to be about 12 million out of which 10% will be exports. So we are, as of now, working on a target of 1.2 million out of 12 million export volume by 2020.

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

Chirag Shah: Yes, thanks for the opportunity. This is Chirag here. Sir first of all just a clarification on your margins. So, if I look at your EBITDA margins, it is only 12.3%. Now we were looking to gain from 70 bps, 80 bps coming from the excise duty hike and the benefit at the Haridwar plant. If I do a like-to-like comparison, our margin continues to trend down since many quarters now so where are the pressures that we are seeing across?

Ravi Sud: Okay. As we stated in the first question, you see because our plan to go into 50 market by 2018-2019 our spend on marketing, between advertisement and publicity, in current year has been higher than in the previous year, I think. As I stated earlier, it is 2.45% versus 2% that is one.

Now second is when we increased the prices to pass on the excise duty hike in January on certain product we did not pass on the full 4% increase. On certain products, we definitely passed on the 4% increase in the excise duty; on certain products we did not pass on the full impact. So that has - these are the two major factors which have contributed to the erosion of that 70 basis points to 80 basis points increase in EBITDA which you were mentioning just now.

Chirag Shah: But we are still maintaining or aiming to achieve a long-term target of 17% odd margins ?

Ravi Sud: Well that is the aspiration.

Chirag: Okay. And second question was on scooters. If you can just make us understand what is the current capacity? And is there any underutilization of capacity that we are seeing because of the demand slowdown. How should one look at the entire scooter demand thesis and the increase in market share that we have been observing over the last two-three years?

A. Srinivasu: Yes. Hi, I am Srinivasu here. The capacity that we currently have is about 1 million for the FY2015 and our plan is also in-line with the capacity. So our plans are in line. And yes, compare to last year we did have some capacity issues and some disruption due to export orders that came in. So this year we do not anticipate that. So with that I think we are looking at some gain in market share too, going forward in FY2016. .

Chirag Shah: But in Q4 we would be having monthly run rate of around 80,000 units in terms of capacity or we have touched 100,000 in terms of capacity? If I assume one million units, so in Q4 we would be... ?

A. Srinivasu: In Q4 we were at 80,000, your are right.

Chirag Shah: And our numbers were on the lower side because it seems there was some underutilization. Is it right understanding on the underlying demand trends?

A. Srinivasu: Marginally, yes, underutilization, not actually because of demand being lower, but we went in for some level of stock correction in March. That was also the reason.

Moderator: Thank you. Next question is from the line of Binay Singh from Morgan Stanley. Please go ahead.

Binay Singh: Hello Sir, thanks for the opportunity. Could you comment a little bit about the demand trends that you are seeing in both rural and urban markets for you? And secondly, the export run rate has also come off in the recent months, so could you comment on that, what had led to the export deceleration?

A. Srinivasu: Hi, I am Srinivasu here again. Let me comment first on the domestic market and request Mr. Sud to comment on the international market. Yes, the demand trend. Just to give you a guidance kind of a thing, it is about we are looking at a growth of about 5.5% trend. And we should do slightly better with some new product launches. We are looking at a marginal upside from the industry growth.

And in terms of rural yes, there is an impact. I think we have issued a press release on this in terms of rural demand. There is an impact, but however, we are little optimistic in second-half. The demand would be a little subdued in the first-half partly also because of a shift of festival season into third quarter, compare to last year which had started in second quarter. So basis that, we expect the second-half to be better. And that the government spending and the various projects and things improve with a good monsoon, we hope to see a revival in rural demand in the second-half.

Binay Singh: Are you seeing any divergence between rural and urban ? Are you seeing urban also slowing down like rural clearly had slowed down, but are you seeing that in your urban share also?

A. Srinivasu: There is a marginal impact in March and April. But I think we need to wait and see, because it could be partly stock correction because especially with the scooters slowing down to about 5% between March and April in terms of growth, which was actually growing at about 25% for the whole year last year. So there is a marginal slowdown in scooter growth, which is coming across this urban slowdown. But we do not see a big upset in quarter one, quarter two but H2 it should revive, this is my view.

Binay Singh: And sir what will be your estimate of scooter demand for the year, like when you say 5% to 7% that is overall industry, I assume ?

A. Srinivasu: Yes, I have just shared, we are looking at a little over 1 million units kind of thing in-line with our capacity, we are looking at about 1 million units.

Binay Singh: Okay. And secondly on exports, what has led to the recent downtick that we have seen?

Ravi Sud: Well you see a few markets I can tell you of hand, like Bangladesh. Bangladesh, there has been - all of us know, there is a lot of political instability. That is the main reason Bangladesh market off take is down by 25% to 30%.

As far as our other markets concerned, I think we are on track. And, as I stated earlier, in the current fiscal we will enter some of the very large markets. If you look at Nigeria may be close to 1 million; Argentina about 0.5 million; then Mexico around 0.5 million. So our plan is that in the current year, we will enter these large markets, and also increase - we are planned to grow by more than 50% even in the current year.

Moderator: Thank you. We have next question is from the line of Amin Pirani from Deutsche Bank. Please go ahead.

Amin Pirani: Sir, my questions were on your CAPEX that you said that you woul be spending around INR3,000 crores in fiscal 2016 and fiscal 2017. Could you help us understand where exactly you will be spending this money in terms of what kind of capacity expansion are you looking at? And what kind of new products can we expect in the coming year?

Ravi Sud: Okay. You see if we look at our capacity as of now it is about 7.65 million. This is all four plants put together. And we have already started construction at Gujarat and we expect our plant to be ready for operations in the first quarter of next fiscal. And that will be one major CAPEX which will come in the current year.

Number two, our new Innovation and Research Center near Kukas, the construction is already on. And that will be the second major expenditure which will be incurred.

Apart from we are also looking at upgrading our Global Parts Center, which went operational last year; number three. Number four, in Neemrana we expect another INR100 crore of expenditure to come in the current fiscal.

As far as - then on the existing plants I will exclude Neemrana for a time being because I am looking at Dharuhera, Gurgaon, and Haridwar, where we are planning to spend about INR400 crores for – we can say, replacement of some plant and machinery and also for new products.

Now as far as new products are concerned I may be can say that, at this point of time, except to the extent that as Srini said, in the next quarter or two quarters, we will be coming out with two new platforms of scooter.

And also we are planning to bring in certain new products in the fourth quarter. But as far as a product lineup is concerned, that is all tied up for next three to four year. And this investment what we are taking today is basically to take care of all those products, pullings or fixtures whatever, and machinery required for those products.

Amin Pirani: So sir in Gujarat plant and the Neemrana, how much capacity will we have, say, by the end of fiscal 2017 from 7.65, which is now?

Ravi Sud: Okay. As I said we have 7.65 million today. And Neemrana, as of today, is 2,500 per day which means 7,50,000.

Our plan is to take it upto 4,000 per day, which will 1,500 multiplied by 300 and we were 450,000. That will take the capacity to 8.1 million. First phase of Gujarat, it will have a capacity of 1.2 million. And in the second phase, the capacity will go up to 1.8 million. So which means by end of FY2017 we could have a capacity of something like 9.9 million.

It will be once Gujarat gets completed, I am not talking about the sixth plant which is in Andhra as of now, okay?

Amin Pirani: Okay, understood. So just to confirm you, said that you will have two new platforms of scooters in the next two quarters is that correct?

Ravi Sud: Yes.

Amin Pirani: Okay Sir, Thanks a lot for taking my questions.

Moderator: Thank you. Next question is from the line of Jamshed Dadabhoy from Citigroup. Please go ahead.

Jamshed Dadabhoy: Good afternoon, Sir. Thanks for the opportunity. So a couple of questions on your employee expenses, How much is one-time due to the re-pricing of retired LTA benefits which you would be setting this quarter?

Surender Chhabra: Jamshed, Chhabra here. As compared to the last year, yes employment expenses are 0.5% higher because of that strengthening of our R&D. And then, slightly because of that retirement provision, because when that government security rates have gone down, the liability has got increased in the first quarter.

Jamshed Dadabhoy: Okay, but most of this ….

Surender Chhabra: 0.5% higher than as compared to our previous years.

Jamshed Dadabhoy: Okay. Due to R&D and - mostly R&D I would say ? .

Surender Chhabra: Yes.

Jamshed Dadabhoy: And in your other expenses, how much would have been just on account of the World Cup Ad bill? About INR 70 crores to INR 80 crores, is it fair to say that, because you are title sponsor?

Ravi Sud: Not World Cup. It is much lower than that figure what you are quoting as. It is probably - there are – three, four events were there. One was that - this Indian Football League; there was an FIH Hockey tournaments, and there was a PGA tournament also that all fall in third quarter. And that is why during the third quarter, our spent was 0.8% to 1% higher as compared to the previous quarter. So these were the one-time expenditures which we had incurred in that quarter.

Jamshed Dadabhoy: But if you sort of normalize these, so you said ad spends to sales about 2.5% for this year. Now going forward, with the thrust on scooter models and also international operations, could we see this 2.5% of sales sustaining or do you expect it to go up even further?

Surender Chhabra: As Mr. Sud told that our expenditure as compared to last year will be slightly higher, that means 0.5% higher in the coming next two-three years. Because of that global presence, we are increasing our presence in 50 countries as against 22 countries presently. So our expenditure on publicity will be in the range of 2% to 2.5%.

Jamshed Dadabhoy: Okay. But you are capping it at 2% to 2.5%, right?

Surender Chhabra: Yes, you know that, traditionally I am repeating again, our expenditure has been 2%. It used to vary between 1.9% to 2.1% or 2.15%. This year it has gone up over 2.45% and I think going forward it could be anything between 2.25% to 2.5%.

Jamshed Dadabhoy: Okay. And sir just to come back to one of your opening remarks you said you did not pass on the price hikes on the full 4% increase in excise. Which products did you not pass it on in?

Surender Chhabra: This was basically on the scooters.

Jamshed Dadabhoy: Okay, thank you very much. I will come back for more. Thanks a lot.

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

Sonal Gupta: Hi, Good evening, Sir. Thanks for taking my question. Just coming back to the demand environment, could you sort of shed light on what sort of growth you have seen in FY2015 in rural and urban markets? And then probably anything more into the motorcycle market growth in these two segments?

A. Srinivasu: Hi, this is Srinivasu here. Yes, if you look at the overall growth I have just shared that we are looking at 5.5% to 7% it is what we are looking at for the industry overall. Motorcycles a little subdued compare to that and scooter is growing a little better. That is what we look at. And as per the rural demand is concerned H1 would be a little subdued primarily on account of some of the unseasonal rains that we have had in quarter four and a little low yield also in terms of crops.

Plus we have also had some slowdown in spending NREGA pull back and things like that which has had some impact. But however, going forward we are looking at some new road projects getting announced and some of the government spending and priorities for rural should push up demand in H2. However motorcycle, I would like to maintain that it will be a little more subdued compared to the overall demand And scooter will be marginally better. I mean reasonably better than the 7% - or 5.5% to 7% outlook that we are trying to give for the industry.

Sonal Gupta: No, sir my question was how has the growth been in rural and urban in FY2015 the previous financial year?

A. Srinivasu: Yes. see previous financial year the industry overall growth was 8.2%. Rural growth has been there. Rural growth is almost in line with the overall growth. It is just that it was growing at a much faster pace in H1. If you look at the rural growth, it was substantially higher in H1 which slowdown in H2, but overall for the year it is almost in line with the overall growth. Substantial growth in H1, partially also because festival season shifting into quarter 2, over the previous FY2014, which was in quarter 3. And also the slowdown that came in second-half that bring down the overall growth rate. But overall it is almost in line with the industry growth.

Sonal Gupta: Okay, sir. My next question is on the new product development and given the EBR bankruptcy, could you just throw some light, on how does that impact your launch plans and do you still want to pursue developed markets because it is sort going to be, I think initially an expensive proposition, more like brand building and not really - the volume markets will really be the emerging markets. So just if you could throw some light on how does your future product development plan look now with the EBR bankruptcy?

Ravi Sud: As far EBR is concerned, EBR we have been working since 2011 on many of our projects. And I think 12 out of 17 projects, which were basically the modifications, have already been completed, and have already been launched. There are five projects on which EBR was working. We had earlier also stated that there is a 250cc motorcycle, and there is a hybrid scooter. As far as 250cc motorcycle was concerned, that was absolutely in the advanced stages, and our plan was to launch sometime end of this calendar year, or beginning of next calendar year. Now with this set back, I think I just want to communicate that we will make sure that these products get completed with our own R&D and by taking external assessment.

Sonal Gupta: Okay, sir. But you do not really see any other major impact rather than this?

Ravi Sud: No, except to the extent that the launch may get delayed by may be a couple of quarters. Because after all, the company is already in the receivership and it will take time, it may take one quarter or may be less or more, as to when we are able to extract the contracts from the receiver.

Sonal Gupta: Okay, sir. Are you then looking at some other partners then to support you?

Ravi Sud: Well that has been an ongoing exercise since 2011 and that will continue to happen.

Sonal Gupta: Okay Sir, Thank you so much. Thanks for taking the questions.

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

Kapil Singh: Hi sir, A couple of questions, firstly on the raw material to sales we have seen decent reductions, so can you let us know how much of it due to excise duty and how much of it is due to commodity prices? And do you expect some more benefits in the coming quarter on commodity?

Ravi Sud: Well you see Kapil you know our system very well. You know the commodity prices have been soft. And in the quarter ending March 2015, not much impact has come but we work with it now for one quarter. So I think we expect some more benefit to come in quarters – coming quarters of FY2016. But however - and similarly. we have some 5% - 5.5% indirect imports – indirect imports from - in Yen. The Yen has depreciating and it is at 120 level. That will be another benefit.

But the only issue, at this point, that I am seeing is depreciation of rupee. I think today it is already crossed INR64. But going forward, we are looking at input cost to be very-very modest and definitely a positive for the bottom-line.

Kapil Singh: That is very helpful, sir. And secondly on the A&P spend, could you also share what was the A&P spend for Q4? As a percentage of sales?

Ravi Sud: You mean advertisement and publicity?

Kapil Singh: Yes, sir. The 2.5% is for the year, right. So I just wanted to get a sense where are we for the quarter?

Ravi Sud: Quarter, I think fourth quarter was slightly higher than that percentage. But overall for the year I think we have to see, because quarter-to-quarter even last time we have told that quarter-to-quarter we should not compare. For the full year we are saying yes 12.4% which is there, which varies from every quarter because in the first quarter we spend less. Normally the spend comes in the third quarter and the fourth quarter.

Kapil Singh: Yeah, so that is why, I just wanted to understand where - when we look at these results what kind of A&P spends are there, so that when we build the numbers the next year we can adjust for that.

Ravi Sud: You see as far as quarter four is concerned it is about 2.9%.

Kapil Singh: 2.9%, so we are slightly higher than the average we expect for next year?

Ravi Sud: Yes, Now you have to see last four quarters – first quarter it was very low, second quarter also very low. As Mr. Chhabra said the main expenditure comes in quarter three and quarter four. So overall, it is 2.45% - 2.4% - 2.45%.But in the quarter three and quarter four, it was higher than 2.5%.

Kapil Singh: Right, sir. And sir last question on the scooters – we have talked about two platforms, so does that platform mean that it will have - each platforms will have more than one variant?

A. Srinivasu: Yes, so hi, this is Srinivasu. We are looking at some variants, but may be at the right time we will share with you in terms of more details that we can. But at this moment we can tell you that we are looking at different platforms.

Kapil Singh: Okay. And sir of the INR3,000 crores over the next couple of years, how much would be the R&D expenditure?

Ravi Sud : Yes, Kapil for this global part – this new R&D center, our approximately spend is coming up to INR700 crore.

Kapil Singh: And on the product development?

Ravi Sud: Well, it is overall I am saying, because the new setup is coming up.

Kapil Singh: Including product development and this thing, it will be around INR700 crores out of INR3,000 crores.

Ravi Sud: Well, no, I think what Mr. Chhabra is saying, our total R&D expenditure for the next two years will be about INR700 crore okay. And I can tell you, as far as FY2014 is concerned, our R&D expenditure was 0.49%. In the fiscal ending March 2015, it has gone up to 1.14%. And we expect it to be anything between 1% to 1.5% going forward.

Kapil Singh: Okay Sir, thanks I will come back in the queue.

Ravi Sud: Kapil, you are asking about the product development. Once the project gets completed, then we have to start amortizing that cost.

Kapil Singh: Right. I was talking more about the CAPEX sir not the amortization.

Ravi Sud: Actually, I think Mr. Chhabra have already share with you the new center, which is under construction. It will be totally about INR700 crores.

Kapil Singh: Thank you. Thanks Sir, Thanks a lot.

Moderator: Thank you. Next question is from the line of Hitesh Goel from Kotak. Please go ahead.

Hitesh Goel: Hello Sir. Sir first question is that you have seen, like Kapil said, we have seen 150 basis points improvement in gross margin on Q-on-Q basis. You said that because of that excise benefits, you have got 80 basis points hike. And there is not much material benefit that has come through from the R&D costs, so this is partly due to the cost saving benefits that we have been getting from LEAP Program?

Ravi Sud: Well as I shared in the full year, this LEAP Program has added about INR326 crore on standalone basis.

Hitesh Goel: Okay. And major part of that has come through in the fourth quarter, should we read it like that?

Ravi Sud: It is a running program. So what happens, as and when some initiative gets implemented it gets accounted – starts getting accounted for this. And now our quarterly run rate at the end of March 2015 was about INR80 – 85 crores a quarter.

Hitesh Goel: INR80 crores on quarter, okay. And sir this - other expenses to sales have increased to a 13% versus 11.7% on the third quarter. So, on Q-on-Q basis - and your third quarter advertising expenses were very high, as you said, as compared to the normal run rate. So can you explain this increase in the heads - different heads that you have seen?

Surender Chhabra: Hitesh, I am Chhabra here. Like we called it in the first question, we have told that our expenditure for the quarter, yes, is higher by 1.75% if you see the overall it is only 1.15%. We are going into the absolute amount as a percentage. But as we see, there are variable elements, like outbound logistic, warranty cost, service cost which increase with the increasing that numbers. Apart from that, the spend on publicity, which we are saying that it is 2.5% as compared to last year less than 2%. So because of this, the absolute amount as expenditure is higher.

Hitesh Goel: Okay. So in the next two odd quarters you would see the expenses coming down because third quarter, fourth quarter has been very high, right?

Surender Chhabra: Yes, normally as we told our marketing spend, publicity spend is lower in the first two quarters. Because of festival, it is always high in the third quarter. And fourth quarter again, we have that higher expenditures. The trend, this is in last three-four year the same, it has not changed.

Hitesh Goel: Okay. And just final question your net realization that is after netting of the excise duty, is up 4% on a Q-on-Q basis, so wanted a sense on that. Why has that happen because mix has not changed much.

Surender Chhabra: There is no major difference in that, per unit if you work out that based on that pattern, because the spare parts there is also part of that of the total turnover. So because of spare sales, it gets slightly INR100 to INR200 per motorcycle.

Hitesh Goel: Okay, so probably due to operating income basically ? .

Surender Chhabra: Yes.

Hitesh Goel: Spare Part sale ? Okay, Okay, Sir, Thank you.

Moderator: Thank you. The next question is from the line of Sreenath Krishnan from Sundaram Mutual Fund. Please go ahead.

Sreenath Krishnan: Thank you sir, Adjusted for these one-off spends of marketing, we would be around something like 12.7%, 12.8%. Now, looking ahead next year, we are looking at something like 5.5%, 6% industry growth, and may be year after that recovery could happen. What gives us confidence, sir , that from these levels of 12.7% or 13%, adjusted , we could reach the aspirational margin numbers in couple of years' time ? Thank you.

Ravi Sud: Can you repeat that question again < Sorry, I just ..

Sreenath Kirishnan: It is more on - with 5.5% of- 5.5% to 6% of growth this year and higher growth year after that hopefully. So what gives us confidence that from these levels of adjusted 12.7% or 12.8% that we would be reaching the aspirational margin guidances that we have in?

Ravi Sud: Well, when we set the target of 17% that was an aspiration, which I have stated, by 2018 and there were certain assumptions which were made that industry will continue to grow anything between 8% to 10%. Okay ?

And we will continue to grow in line with industry or do slightly better than industry. We still have the aspiration to reach that EBITDA level. And as I shared, the LEAP Program has been very successful. Last year it contributed about INR168 crores, this year it was INR126 crores. In FY2016 we expect anything between INR200 to 225 crore. In FY2017, because now we are working on the idea which needs longer lead time to implement because they are all relating to design, which requires expensive testing. So FY2017 we are again looking at anything between INR250 to INR275 crores.

Sreenath Krishnan: Okay. So considering the current environment we are in, like if you were rework on your expectations and guidance, what would be the realistic levels of margins considering the increase in R&D spend and marketing spend that we are envisaging at this point?

Ravi Sud: For this year?

Sreenath Krishnan: For FY - may be for the next couple of - the next couple of years ? .

Ravi Sud: If you look at - we are already at about 13%. And if you look at the first two quarters of the year, we were at more than 13% and that was impacted because of the excise duty.

And quarter four margins, to some extent, have been impacted by not passing on the full excise duty of 4% and also higher advertisement spend. The margin at 13% and our target for next two years is that we should increase it to – increase it by about 200 basis points.

Sreenath Krishnan: Okay. Thank you, sir.

Moderator: Thank you. Next question is from the line of Jinesh Gandhi from Motilal Oswal. Please go ahead.

Jinesh Gandhi: Hi sir,Good evening. A couple of questions. First is a clarification. The CAPEX number of INR3,000 crores is excluding AP Plant right?

Ravi Sud: Yes. If anything comes as far as AP is concerned, It would be - the first thing would be the land, but that would not be very significant. And our plan is that, first we want to complete the first phase of Gujarat plant which should be completed by April 2016. And then start working on second phase and simultaneously maybe, start working on Andhra Plant. So in FY2016 expenditure may be absolutely negligible for AP Plant.

Jinesh Gandhi: Okay. And this 3,000 crore would be equally split between 2016 and 2017, or it would be slightly back-ended?

Ravi Sud: No, as far is FY2016 is concerned this is as of now INR1,650 crores.

Jinesh Gandhi: Okay, And balance in 2017?

Ravi Sud: Yes.

Jinesh Gandhi: Right. And the new R&D center which we are talking of is the one in U.S. or something else?

Surender Chhabra: No, Jinesh, it is Kukas in Jaipur. The R&D Center which we are talking about in-house R&D.

Ravi Sud: Which we are talking some capital expenditure of around 700 crores.

Jinesh Gandhi: Right sir, second question pertains to other operating income in the quarter. It seems to have gone up quite substantially. Any one-offs there, or what that pertains to?

Ravi Sud: On quarter-to-quarter basis now you will see comparable because once we have started operationally in Rajasthan Plant, or Rajasthan, we have some fiscal incentive from the state government. We applied for that eligibility certificate and in the fourth quarter we had booked some fiscal incentive from that Rajasthan Government. So that is why our other operating income is higher, as compared to the previous quarters.

Jinesh Gandhi: And what this fiscal incentives would be?

Surender Chhabra: This is a refund of VAT.

Jinesh Gandhi: Okay

Ravi Sud: The fiscal incentive is whatever we sell which is produced in Rajasthan and sold within the state of Rajasthan you get a refund of VAT, okay.

Jinesh Gandhi: And this would be for seven years?

Ravi Sud: Yes.

Jinesh Gandhi: And sir last question on inventory. Can you throw light on what kind of inventory would our dealers be carrying now?

A.Srinivasu: The inventory is between four to five weeks depending on the location. Average would be around 4.5 weeks.

Jinesh Gandhi: Okay, Okay Sir. Thanks. And all the best.

Moderator: Thank you. Next question is from the line of Monica Joshi from Bajaj Allianz. Please go ahead.

Monica Joshi: Hi, Good evening. Thank you for this opportunity. Sir, I am sorry if we miss this explanation. Why was the price hike not taken in scooters?

A. Srinivasu: Yes, if you look at the price matrix, we were priced a little higher than the market leader. That was one of the reasons we wanted to bring in a small correction in pricing. So that is the reason we did not take the hike. It is not that we did not take any hike at all. Part of it we took and part we did not take.

Monica Joshi: Are we to believe that this is the same situation that continues today or have you adjusted that deviation?

A. Srinivasu: Yes, we have made the adjustment to this. We took a lower hike. With that, we have bought it in line with the rest of the competition.

Monica Joshi: Sir let me rephrase my question, have you taken a subsequent hike to get back this…

A. Srinivasu: No, we have not.

Monica Joshi: And also, is it possible for you to comment on how your competitors have reacted to your shift in prices? Have they also changed their pricing strategy accordingly?

Ravi Sud: No, honestly we have not had any reactions from competition. Actually, we were challengers in scooter segment, so that is probably one reason why there is not much of a reaction.

Monica Joshi: Okay, thank you so much.

Moderator: Thank you. Next question is from the line of Abhishek Gaonshinde from Sunidhi Securities. Please go ahead.

Abhishek Gaonshinde: I have one question regarding the expected capacity to come in the foreign markets How we will see new capacity addition in the export market – sorry – foreign market ?

Ravi Sud: Okay, If I understood, your question is relating to the joint ventures where we have - is it relating to that?

Abhishek Gaonshinde: Yes, sir.

Ravi Sud: Okay, we have 100% subsidiary in Columbia. The construction is in full swing and we expect the production to start sometime in the end of second quarter or beginning of third quarter of the current fiscal. That has a capacity of 84,000 units per annum, so that is Phase-I. In 2017, it should go up to 150,000 units. Okay ?

Abhishek Gaonshinde: This capacity is the part of the 9.1 million which you had said initially.

Ravi Sud: No, No.

Abhishek Gaoshinde: And the volumes ?

Ravi Sud: It is only capacity of the existing – of our domestic plants.

Abhishek Gaonshinde: And the volumes which will come from this joint venture will be the part of our export volume or will be the part of the consolidated financials of ours?

Ravi Sud : This will be part of our exports number because they are in – there is Bangladesh or Columbia, it is a value addition on that specifically parts which will send from here in terms of motorcycles.

Abhishek Gaonshinde: Okay. Thank you.

Moderator: Thank you. Next question is from the line of Raghunandan from Quant Capital. Please go ahead.

Raghunandan: Thank you sir. Sir, just a clarification on the scooters. You said you took a lower price hike, could you quantify that sir? Excise duty increase was 4%?

Ravi Sud: Yes, 2% is what we took.

Raghunandan: Okay. Thank you. On the scooter side, when we say the demand is shifting from scooters to motorcycles, so - or whatever demand is getting created in scooters, or whatever higher growth is coming in scooters is it new demand or is it a shift from motorcycle to scooters? So what I wanted to understand was with the working females going for scooters, that is new demand, right, that is not a shift happening from motorcycle to scooters? Some thoughts on that sir?

A. Srinivasu: Yes, I think it is mixed in my view because if you look at in one there is not - the structural change is happening more towards scooters and motorcycles. Scooter structure, we exited at almost 30% in March, but then it is moderated again in April back to 27%, 28%. So yes, a large part of is coming in from the new demand, which is primarily, you are absolutely right it is from more working women, more changes in the demographic and things like that.

The second part is also people are using it as second vehicle. So it is not that they don't own a motorcycle, they probably have a motorcycle and they also have scooter for small errand work kind of thing.

So it is both these put together which is actually helping the industry grow. So it is largely you are right is due may be the new demand is coming in due to various factors and partly also a shift from the existing motorcycle segment.

Raghunandhan: Thank you Sir, That was very helpful.

Moderator: Thank you. Next question is from the line of Mukesh Saraf from Spark Capital. Please go ahead.

Mukesh Saraf: Yes, Thank you for taking my question. Firstly, on your scooter capacity you had mentioned that 80,000 units a month is your current capacity. Could you just give a sense on how this would be ramped up over the next two years?

A.Srinivasu: See currently, our capacity is about 1 million, right. I was mentioning 80,000 we had in March, actually. In quarter four, the capacity was around 80,000 which is almost closer to 1 million. Next year, we will have a little over 1 million in terms of capacity. And I think the capacity increase will be determine by the market requirements. So I don't think there is a major issue in increasing capacity as such. So it depends on how the market pans out. Basis demand, I think, we will keep increasing our capacity.

Mukesh Saraf: And your new launches in scooters, would you be replacing the Maestro or would Maestro continue? I am asking because would there be royalty that you will continue to pay on that ?

A.Srinivasu: Yes. right at the moment I would not be very specific, but generally we are not planning to discontinue any scooter.

Mukesh Saraf: Okay, so that will continue. And secondly, just sorry to go back to the other expenses, but even if I just planed to strip out – say, in FY2014, if I strip out 2% of sales from your other expenses, and in FY2015 if I strip out 2.5% of sales in your other expenses, I see that other expenses have grown about 17% to 18% Y-o-Y, while our revenues have grown about 9% Y-o-Y.

So despite the fact that you are seeing a LEAP Program you are saying that you have benefited about INR300 crores, I am seeing the other expenses ex-of A&P spend, is actually growing significantly higher than the revenue growth. So what is it that is driving these?

Surender Chhabra: Mukesh I am Chhabra here. As we told that because of increasing our global presence we have to have spends on the branding. And publicity spend, which is part of major, I think expenditure part of our total expenditures, is going to be slightly higher in the coming two to three years. Apart from that it is only variable elements which are increasing, because this total expenditure has various variable elements which increase with the increase in numbers.

Mukesh Saraf: Yes, sir that is why I am trying to looking at vis-à-vis your revenue growth.

Surender Chhabra: It is major apart from variable, it is only that marketing and publicity cost, which we are saying that, yes, it is on the higher side.

Mukesh Saraf: I would probably take this off line, sir. Thank you.

Moderator: Thank you. Next question is from the line of Ambrish Mishra from JM Financial. Please go ahead.

Ambrish Mishra: Sir this is Ambrish. Sir, I had just two questions, one, the provisioning that we have taken as exceptional at INR155 crores. Does it have any implications on the tax provisioning for the quarter?

Surender Chhabra: Ambrish, no, it does not have. It is provision, so there is no effect of tax.

Ambrish Mishra: Okay. And sir second and last question, can you share some insight into the demand that you are seeing on ground in the premium versus the executive segment? Any trend that you can share with us and how do you see these two segments shaping in terms of demand in FY2016?

A. Srinivasu: I think both the segments would grow. Both the deluxe – the regular segment and the premium segment is expected to grow in the next fiscal. Yes, even though it would grow, premium is still a very smaller segment compared to the huge deluxe segment, which is a major part of the overall industry, especially as far as motorcycle is concerned.

So we are looking at a decent growth rate for both of these. Maybe the premium segment would grow marginally better than the overall growth rate. As we are looking at motorcycle industry growing at 3% to 4% you would find premium growing a little better than that, because of the base effect, mostly because of the base effect.

Ambrish Mishra: Correct. But you don't see a significant diversion in terms of growth?

A. Srinivasu: No structurally I do not see a major shift meaning if you are talking about, let say, currently if premium is at 15% you are saying it will jump to 25%, no. Marginal structural changes would happen definitely but that will be very marginal because of the low base that is there. There is nothing significant that is seen as a trend as of now.

Ambrish Mishra: That's from me sir. Thanks. And all the best.

Govindarajan Chellappa: Yes, hi sir this is Govind here. I had a couple of questions. Can you give us an update on the financing business? How has it progressed and where we are in terms of the market share that your capital finance has in overall financing?

Ravi Sud: Okay. Are you aware we have started our business in 2013 and for FY2014 we have done about 51,000 two wheelers. And in FY2015 we have done 220,000 bikes. And the book size, which on March 2013 was INR450 crore, has grown up to 3,085 crore.

And for FY2016, the plan is that this business will do about 400,000 two wheelers retail financing as well as grow SME and MME business, and foray into other initiatives like LAP and all. And for the current year, I mean, for FY2016, our target is that we should have a book of close to INR6,000 crore by March 2016.

Govindarajan Chellappa: Okay. My second question was again coming back to this - several people have asked on this other expenses. I mean, even if we adjust for the ad expenses and the variable expenses you speak about the extent of increase for the full year and especially in the fourth quarter is a little difficult to understand.

And as a sub-question, if I could ask what has been the royalty payment of Honda on the new models, on Maestro and others, during the year?

Ravi Sud: Let me first answer you the question on royalty. As far as royalty to Honda is concern, this is linked to a number of units that we sell. Compare to previous years, there is an increase of just INR4 crores in terms of absolute value, because numbers for these products have been more or less constant, which is very-very marginal type of growth.

Govindarajan Chellappa: So royalty would have been INR120 crores.

Ravi Sud: Yes, it is actually 121 crore.

Govindarajan Chellappa: Yes, my other question was on other expenses sir. I mean, if you adjust for ad spends, it is still – we 'd still get … ?

Surender Chhabra: Govind, I am Chhabra here. If you add all these expenses as a presented, it will be, I think what you are calculating will be the same. There is no major expenditures, the minor expenditure increase in the other small-small heads. Otherwise the major element we have already explained here.

Moderator: Thank you. Next question is from the line of Ankit Mhatre from Espirito Santo. Please go ahead.

Ankit Mhatre: Sir coming back to your cost structure, your employee cost seems to be also going up, so what can be the normalized employee cost as a percent of net sales that we should look at for next year?

Ravi Sud: Mhatre, we have told that our employment cost is presently higher by 0.5% for the year. Because of that adding strength to the R&D department. And apart from that, some retirement provisions because of the government securities rate has gone down. The provision has increased. Our spend will be, I think, it will be in the range of 4.15% next year, not more than that.

Anikit Mhatre: Okay, 4.15%, about. Okay, understood. Sir, basically you have told in that your ad spend this quarter is higher but for the full year you are indicating that it is just higher by about 50 basis points ?

Ravi Sud: Correct.

Anikit Mhatre When I go to your gross margins, they have improved almost – they are better by 150 basis points. So I mean, just tying up the two, if ad spend were to remain at about 2.25% of net sales as you are indicating, then we should see more than a 100 basis points improvement in margins on a steady state basis next year. Is that a fair calculation?

Ravi Sud: It will be in the next year, yes, because if you see in the fourth quarter that anomaly, which the government had for excise duty had been corrected. So you will see that the margin improvement will be there in the next year.

Anikit Mhatre: And could you quantify to us the amount of higher other operating income that was booked this quarter because of that VAT benefit?

Ravi Sud: Because of ?

Anikit Mhatre: The VAT benefit. You indicated there was some other elements ....?

Ravi Sud: The Rajasthan State Government, we have Neemrana plant, which started operations from October onwards. After applying for that fiscal incentive the government has approved us from January, which - we will be in entitled for seven years. So whatever we are selling locally in the Rajasthan State, VAT rate which we charge on the sale of vehicle, is refundable to us, as an incentive.

Ankit Mhatre: No, I understand. Sir I was just looking at the quantum that was booked, It will ...?

Ravi Sud: Vary from number to number, because it is not a fixed amount, which we will get.

Aniket Mhatre: Sir, sorry, I didn't get your answer, sorry.

Ravi Sud: It will be on sale of numbers, not a fixed amount.

Aniket Mhatre: Okay. Okay. I understood. Okay. Thank yuou, sir, and all the best. Thank you.

Moderator: Thank you. Next question is from the line of Ronak Sarda from Axis Capital. Please go ahead.

Ronak Sarda: Hi sir, Thanks for the opportunity. Just wondering, can you please repeat what is the content of direct and indirect imports as of now and the hedges we have?

Ravi Sud: Sorry, you are talking of import content?

Ronak Sarda: Yes, direct and indirect imports, both, what is the content now at ....?

Ravi Sud: Okay, you know what, direct import is about 4.5% and this is basically the cast steel which we import from China.

Our indirect imports are about 9.5%. These are the imports which our vendors do for their production and which ultimately comes to our products. Now out of this 9.5%, about 50% is in Japanese Yen and balance is in dollars and other currencies.

Ronak Sarda: Okay. And have we hedged anything in the Yen or any other currencies?

Ravi Sud: Well as far as the Yen is concerned, I don't have any import in Yen. This is basically done via the vendors. That is why I said, this is an indirect import. Out of 9.5% about 50%, so close to 5% imports of vendors is in Yen.

Ronak Sarda: Right. Okay. That's it. Thank you.

Ravi Sud: Okay, Can we have the last question, please ?

Moderator: Sure sir, We have next question from the line of Trilok Agarwal from Birla Sun Life Insurance. Please go ahead.

Trilok Agarwal: Thanks, All my questions have been answered.

Ravi Sud: Okay. Thank you.

Moderator: Thank you.

Ravi Sud: Any last question, then, we can close the call ?

Moderator: Sure sir. Next from the line of Basudeb Banerjee from Antique Finance. Please go ahead.

Basudeb Banerjee: Thanks, sir for taking my question. Most have been answered. Just wanted an update this JV with Magneti Marelli for the engines part – that was coming, so, any update on that?

Ravi Sud: Okay. This is a joint venture between Hero MotoCorp and Magneti Marelli. It is a joint venture where we - HMC owns a majority of 60% and 40% is held by Magneti. The latest is that the plant has been inaugurated very recently in the month of March and is ready for production.

Basudeb Banerjee: So broadly any modernization in engine or electronic control stuff you will be sourcing from that and you won't be dependent on Bosch for the supplies ?

Ravi Sud: Yes, that actually is the intention as of now. But also, looking the products that we bought from the subsidiary has to be at arm's length and in the ordinary course of business, because of related party transaction. But the main intention of forming this JV was to invest in the fuel injection pump technology, in which Magneti Marelli is one of the leaders.

Basudeb Banerjee: Sure, and sir as Chhabra sir said that there is no tax adjustment from this extraordinary this quarter, then if we just take the reported numbers, tax rate is even below 25% compare to almost 27% and 30% in last couple of quarters. So why the sudden dip in tax rate sir?

Surender Chhabra: Well, it is not 25%, because if you see profit for the year and apply the percentage and overall for the year it is 27.07%.

Basudeb Banerjee: Okay. So that adjustment for the year…

Surender Chhabra: For the quarter.

Basudeb Banerjee: Okay. And sir I missed out earlier you said that the scooter capacity is 1 million. What is the enhancement plan for scooters down the line, where overall capacity you said, will move up to 9.9 million, so….

Ravi Sud: As far as capacities are concerned, we are flexible, depending on the market condition. And as Srini has said earlier, depending on the demand, capacities will be created and the capacities do not take much time.

Basudeb Banerjee: Okay, okay. Thanks sir. That's all.

Moderator: Thank you. Ladies and gentlemen, due to time constraint that was our last question I would now like to hand over the floor back to Mr. Rahul Arora for his closing comments. Over to you, sir.

Rahul Arora: Thank you. Just would like to thank the entire management Mr. Sud, Mr. Chhabra, and Mr. Srinivasu for taking time out, and wish them all the best for the upcoming year as well.

Ravi Sud: Thank you, Rahul. Bye.

Rahul Arora: Bye-bye, sir.

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