

"Hero MotoCorp Ltd. Q3 FY16 Results Conference Call"

February 11, 2016







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OFFICER

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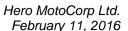
Mr. Surender Chhabra – Vice President

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ASHISH NIGAM - SR. VP - AUTO & AUTO ANCS -AXIS MODERATOR:

CAPITAL





Moderator:

Ladies and Gentlemen, Good Day and Welcome to the Hero MotoCorpLtd.Q3 FY16 Results Conference Call hosted by Axis Capital Limited. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Ashish Nigam from Axis Capital. Thank you and over to you, sir.

Ashish Nigam:

Thank you. Good afternoon, everyone, this is Ashish Nigam from Axis Capital. We are delighted to have with us today the Senior Management Team from Hero MotoCorp to discuss their third quarter results and outlook.

I will hand over the call to Mr. Umang Khurana – Head, Investor Relations for his opening comments and to introduce the management team. Over to you, Umang.

Umang Khurana:

Thank you, Ashish, and welcome everyone, Good Day. We are happy to discuss the financial results with you today. On the call with you is Mr. Ravi Sud – Sr. Vice President &CFO, Mr. Mr. Ashok Bhasin – Head of Sales, Marketing & Customer Care and Mr. Surender Chhabra – Vice President (Corporate Finance).

We have budgeted an hour for the call and look forward to speaking to you now. Thank you again, Ashish, for opening the call. We will begin straight with the Q&A.

Moderator:

Thank you very much. We will now begin the question-and-answer session. Our first question is from the line of Jay Kale from Elara Capital. Please go ahead.

Jay Kale:

Sir, my first question was regarding your scooters, what kind of capacity you would be having currently and what is the plan for FY17? And in that capacity what would be the breakup of plant for Maestro Edge and Duet separately?

Ravi Sud:

Our scooter capacity is 100,000 per month or 1.2 million p.a. And as you are aware we are also working on increasing capacity in our new plant at Halol in Gujarat which we expect to be operational sometime at the end of H1. Now as far as the sales are concerned, may be I will ask Ashok to just chip in.

Ashok Bhasin:

Between the two new scooters we expect the two scooters to continue to grow from their current, as we at the early stages of launch I think only in the few months should we be looking at ratios but we expect the two new scooters to be a dominant part of our scooter business in the next fiscal.

Jay Kale:

Sir any split between how much you plan for Duet and Maestro Edge, any constraints you have over there if at all the demand skews towards one model?



Ravi Sud:

I think we will have flexibility to meet the demand as it goes out, but we expect success for both the models.

Jay Kale:

And second one was on your margins, they have held up quite well on a sequential basis despite scooter contribution increasing 500 basis points, but if we see it has largely come from lower raw material to sales, so is it because of your commodity prices benefit kicking in, I mean if you could just throw some light on that?

Ravi Sud:

There are two or three parts to it, one as already mentioned, is the commodity prices being down, second, we have been running a very-very successful program of LEAP and just to share, so far up to December this program has contributed 80 basis points and we expect that this contribution to be about 105 to 110 basis points for the full year. So it is combination of soft commodity prices as well as the management of cost through this new program.

Jay Kale:

Sir and your outlook for FY17 on the scooters industry growth as well as for motorcycles if we have a decent enough monsoon?

Ashok Bhasin:

So currently if we look at the YTD trends, the two wheeler industry is close to 1% positive with motorcycles actually in the decline zone somewhere around 2% to 3% and scooters is positive at 10%, however it is a much slowed down growth and mopeds is (-7%). As we look into the next year, pretty much the first half is going to be tough and we do not expect a sharp recovery, I think it is going to be a gradual improvement, but if the monsoons turn out to be positive than the second half if when we should see some of the positive impact, but it does take time for it to have a positive impact. But as far as we are concerned we continue to dominate the market in motor cycles with more than 50% sales and also on two wheelers. So that is how we see, I think we have to keep playing to the market as it evolves but we are positive as all of us are sort of hoping for and working for.

Jay Kale:

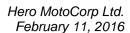
Sir just one last question if I may, on the other expenses side it has inched up sharply on a sequential basis and so has employee expenses, are there any one-off provisioning for the new Bonus Act for the employee expenses and any one-offs in other expenses?

Surender Chhabra:

Yes, as far as that employee cost is concerned, yes based on this Amendment to the Bonus Act we have gone and provided for the previous year because in Haryana wherever are the plants, none has gone in state because in Karnataka and Kerala if you see that High Court has said that retrospective amendment, but in other states not yet. So we have gone and provided for that provision. On the other hand, other expenditures even in our previous call we had told that during festival period we normally have more spend on the publicity which I think is reflected in that other expenses itself.

Moderator:

Thank you. Our next question is from the line of Pramod Kumar from Goldman Sachs. Please go ahead.





Pramod Kumar:

My first question pertains to what Jay was in a way asking for the industry growth, given how the first nine months have panned out and January is also done, where would you put the industry growth for this year and also for the next year given that you said the outlook for first half is a bit tough, second half should be better assuming a normal monsoon, under those kind of assumptions what is the growth rate one can expect for two wheeler as an industry and in particular if you can share more about the segmental spread between motorcycles and scooters?

Ashok Bhasin:

So as far as the current year is concerned, with 10 months done I think the full year will end, we estimate close to where we are at YTD because we are already 10 months into the year. As far as next year is concerned, we think it will be a low single-digit growth certainly in the first half with slightly better growth in scooters and motor cycles will be growing only slowly because a lot of that business also comes from the rural market, but second half should be better for both scooters and motor cycles.

Pramod Kumar:

And sir when you say low single-digit growth in first half and slightly better growth in second half, so definitely the growth is going to be better than what you have seen in FY16, but would you say that it could be probably we could see double-digit kind of a growth for the industry given the scooters should probably outperform again?

Ashok Bhasin:

I am currently not seeing a double-digit growth for the next fiscal because scooters even today is only 30% of the market if you see and 65% is motorcycles and then there is moped. So even if scooter grows at double-digit number, I do not expect it to take the whole industry to double-digit, but that is work on executing in the market and drive the growth as best as we can.

Pramod Kumar:

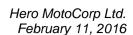
Because in a way what I wanted to understand is whether scooters can inch up further from this 10% kind of a growth trajectory, because even in a flattish year largely for the industry scooters are doing double-digit kind of a growth and with the introductions from your side and probably more capacities coming on stream from other scooter segment and probably increase penetration of availability of scooter in the interior market, is it right to expect that scooter growth can probably shift a gear up and probably go to 15% kind of a mark next year?

Ashok Bhasin:

I think we expect both to improve, so scooter from the 10% could be slightly better double-digit, but certainly scooters is also not looking like the 25%, 30% that it was growing say six to eight quarters ago.

Pramod Kumar:

And on the scooters, just given that your both the products are now largely pan India, I just wanted to understand how is the feedback in the urban versus rural because historically we have shared that the northern states may not be that scooter friendly in the interior markets, so I just want to understand what is the input from say states like UP, Bihar in the rural market, are scooters crossing the threshold or a barrier of say 15% of the industry in the interior markets or you still think that despite all the launches and the network push scooters may not do great on the rural side?





Ashok Bhasin:

I think it is at an early stage, the launches are still getting rolled out nationally and the national rollout will be completed in the current quarter as we speak, but for sure what we have already seen in this few months is that our market share has gone up by almost 6% from a YTD 14 to last month was around 20%. So I think we are seeing positive progress and it is being driven obviously in urban and strong scooter market but because of Hero's strong reach and net worth of 6,000 plus outlets it is obviously helping the category penetrate in the other market where other competing players do not have any reach or presence.

Pramod Kumar:

So in a way rural can do much better than what they are doing currently on scooters, is that a right assessment?

Ashok Bhasin:

See, rural market overall is sluggish but with Hero's reach obviously scooters category will also get a support in the rural market because it is a brand with a large presence and network penetration and service networks in those markets, so it certainly will help.

Pramod Kumar:

And my second question actually pertains to other expenses, Sir generally it is known that the second half of the other expenses are much larger than first half and normally you see that the fourth quarter is kind of where the other expenses kind of go to a new high versus 3Q, so that kind of a trajectory is that fair to expect in the fourth quarter again?

Surender Chhabra:

Pramod, I think your statement is wrong that fourth quarter expenditures are always high, it depends on the numbers that how the company performs in the fourth quarter in the top-line. Last year, yes it was there because the top-line growth was not there, but normally fourth quarter expenses are always lower than the third quarter, the festival period.

Pramod Kumar:

But your volumes will be ideally better given the ramp up on the scooters you are still not pan-India, so I am just thinking, given that the output may increase so ideally other expenses should also be in a way seeing a step up or something like that or in a way there is any sports activity or a sponsorship what you are doing in 4Q?

Ravi Sud:

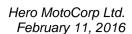
Pramod, let me just chip in. As Mr. Chhabra said in quarter three generally the A&P is on the higher side, even in this quarter as in the many years, one of the important factor is spend on publicity which is always the highest in this quarter. Fourth quarter it automatically goes down to the average level of 2.3% to 2.4% versus say 3% which we have booked in quarter 3. So my expectation would be that in quarter 4, the other expenses will definitely be low. As far as any major events are concerned, most of the events are generally in quarter 3.

Moderator:

Thank you. Our next question is from the line of Kapil Singh from Nomura. Please go ahead.

Kapil Singh:

Sir first question on other operating income, you have seen a good jump in this quarter, almost 120 crores from around 90 crores - 92 crores kind of levels.





Surender Chhabra:

Yes Kapil, the other income growth is there on quarter-on-quarter basis, it is only because of that Rajasthan incentive which is there on Rajasthan sale and that is why that quantum is high compared to the previous quarter.

Kapil Singh:

And secondly on the exports outlook, markets have turned tougher and some of the competition has talked about dollar availability issues as well, in your case obviously company is starting on a low base, how do you look at this from a slightly longer-term perspective, is it throwing up some opportunities or should we expect a slow ramp up from your side as well?

Ravi Sud:

Kapil, we have talked many times on this, I think we are the last entrants and not the first movers in this area and we are trying to ramp up. I can tell you last time I had talked about three markets, Nigeria, Argentina and Mexico where we were working and I just wish to inform you that we have already appointed a distributor in Nigeria now and we are likely to start before the quarter is over. Unfortunately what has happened in the currency over there is not very encouraging. As far as Argentina is concerned, well, we will pursue with the distributor but in the last 45 days the currency had depreciated by more than 45%, so that is gone on a slow track. As far as Mexico is concerned, yes our expectation is before this quarter is over we would have identified the distributor and expect to start the operation sometime in the beginning of quarter 1 of next year. You are right, some countries like where we have exposure like Congo and Angola, current availability of dollar is a challenge which is impacting the growth in these markets.

Kapil Singh:

And would you be able to quantify how much were the provision for Bonus Act this quarter?

Surender Chhabra:

This relates to one year that means 21 months, last full year 2014-15 and nine months for this current year, I will say roughly it has mainly basically for that contacted as well and some permanent workers on it. Quantum will be near about Rs.12 crores to Rs.13 crores additional.

Moderator:

Thank you. Our next question is from the line of Binay Singh from Morgan Stanley. Please go ahead.

Binay Singh:

My question is more on the market share side, till now we have seen like in the Auto Expo almost all your competition is giving very aggressive market share targets, some of them like Bajaj are even using pricing as a strategy to gain market share with the CT100B. So in this environment when you look at FY17 where you also are not very bullish about motorcycle growth, how do you see industry pricing behave in the next year? And between market share and margins would you have any preference between the two, would you be willing to lose some market share and maintain these margins?

Ashok Bhasin:

I think first of all some of the things that you are referring to, they have happened in the current year itself, some of the brands have taken extremely aggressive price position in the market actually or several months right from the start of the year. I would say that with a combination of our strategy and execution on all elements of the marketing mix which is brand, distribution and our whole go-to-market strategy, we have been able to perform in this year very strongly with



motorcycles actually staying well above 50% through the year despite some of the actions of some other competing players in the market like we mentioned. In fact, during that same last year we have actually partly improved our mix because if you look at the 125cc segment our leading brands Glamour supported with Super Splendor is one of the fastest, it is actually the fastest ride amongst the top 10 brands in the market with the market share going up by almost 4 percentage points. So I think with the combination of actions like I said, including mix and geography actions, we have been able to hold our position and balance very effectively as you see a strong market share and some strong financial performance as well. I think we have repertoireof things to deal with the future as it comes, that is all I would say. I think we have a distribution network stronger than anybody else, we have a brand portfolio, we have multiple models in multiple segments and we will do what is appropriate to balance appropriately the two.

Binay Singh:

So for instance, to sort of sum up, is it your understanding that you do not see pricing pressure in the industry going up because like Bajaj CT100b is a recent introduction to the market and all of them in fact are guiding for further aggression, so in your view you do not see that playing out next year.

Ashok Bhasin:

I think it is too early to comment on the latest CT100B, it is just sort of folding out. So as I said, we will take the actions as the year goes about as we deem appropriate, all I am vindicating is that even in the current years we have been able to appropriately balance and I am quite confident that we will deal with the market as we create or as it unfolds.

Binay Singh:

And sir lastly, any color from your side on rural versus urban, you guys are the best placed for that, are you seeing trends incrementally weakening in rural in terms of retail sales or are you seeing some kind of pickup?

Ashok Bhasin:

I would not say incrementally weakening, but I think it is a sustained sluggishness in the rural market as of now. There are not green shoots of pickup as of the moment if you look at the rural market situation as of now. We have two consecutive weak monsoons and several other elements like support prices and rural wages and construction activity, some of the government schemes, etc. So obviously a combination of all those factors is impacting the state of the rural economy and the demand as is reflected in the multiple product categories including consumer products and also major categories like tractors if you see. So yes, I think rural needs further support for it to improve, monsoon should be only one action. Let us all stay tuned for what else the Government does, but I think it is a recognized area which leads further acceleration.

Binay Singh:

And sir just lastly, could you share your inventory number for January end?

Ravi Sud:

You mean the distributors?

Binay Singh:

Yes.

Ravi Sud:

It is close to six weeks.



Binay Singh: So four to six weeks is at the distributor end, because you keep very low inventory at your end,

right?

Ravi Sud: No, no we keep just one day to one and half day because generally the stock in our four factories

is anything between 20,000 to 30,000, that is it.

Moderator: Thank you. Our next question is from the line of Govind Chellappa from Jefferies. Please go

ahead.

Govind Chellappa: My first question is on your scooter portfolio right now, we have a decent understanding of the

motorcycle market but could you just explain how the scooter market is split in terms of unisex market, mail-only, female-only, metal body, plastic body, 100 cc, 125 cc, we have a very little understanding of that and within that context how is your position and what is the gap yet to be

filled?

Ashok Bhasin: I would answer it at a macro level, but I am sure we can engage in a detailed discussion offline.

Scooter market is currently about 35% of the total two wheeler market, within that the dominant format is, in cc terms it is the 100 cc, 110 cc which is approximately large part of the market, almost 90% and then the 125 cc segment is about 10%-12%. Other elements like sex - male, female etc., I think that is details of market segmentation which we can cover probably in a more offline comprehensive conversation. But that is what I would say to the scooter market right

now.

Govind Chellappa: I mean at the time of the launch there was a lot of talk about you not having a metal body

product and the Duet fills that particular gap, is that such a big difference, plastic body and metal

body in terms of the split of market as well as what it actually does to the consumer?

Ashok Bhasin: I think the starting point is not metal or plastic, obviously there are certain consumers for whom

gap in the market, so now we do have a compelling proposition which is in metals but that is not the only thing, it also has features and the built and the engine and the performance, and similarly in the Duet we now have a very good performing scooter with a lot of consumer friendly and consumer relevant features and it comes in metal body. So metal and plastic is not the only distinguishing factor, I think the styling, the performance, all those elements are also

differentiating the two brands which is Maestro Edge and Duet and both continue to be received

the metal body is a preferred format. So what I would say is that Hero has filled up that vacancy

extremely well by the consumer.

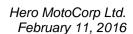
Govind Chellappa: And given that you are just rolling it out across the country, in the markets where you have

already launched, all India market share is about 20 or 21, but in the markets where you have

already launched what is the market share we are looking at?

Ashok Bhasin: It varies on market but what I would say is that in every market where we have given full

distribution we have gained market share, there is no exception to this. Just to let you know, we





have completed 1 million test ride program which we had announced at the time of launch, I had said we will do 1 million test rides to make sure that the consumer gets to experience our product for the touch and feel, we have successfully completed that record actually in a very short period of time already by January and we are getting conversions of almost 10% and more. So both of those, the number of 1 million test rides and the conversion factor of 10%, I think are extremely encouraging and that reflects that in a market share we are just gaining almost 6% during this period. And by the end of this quarter the launches would be national with both the models around the country.

Govind Chellappa:

One last question on scooters, the wholesale market share that we see, is it also similar to the retail market share?

Ashok Bhasin:

I think if you look at over multiple months and average it which is only the right way to look at it, it would, unless any brand goes for disproportionate stock build up. Month on month I have always maintained that the dispatch numbers could vary, but the right way to look at it is over a medium-term basis like six month basis or a nine months ruling basis, and that is the right way to look at the market share.

Govind Chellappa:

And my last question is, what is the CAPEX for the current year and what is the cash on balance sheet as of December 31st?

Surender Chhabra:

Govind, as you know that even in the last concall we have told that our R&D center is going to be capitalized in this year and Gujarat plant is under construction. So for R&D center our CAPEX will be I think Rs.550 crores in the current year which is we are going to capitalize and cash outflow for Gujarat Halol plant is approximately going to be Rs.1,100 crores to Rs.1,200 crores.

Govind Chellappa:

That is in the current year?

Ravi Sud:

Because of Gujarat plant we capitalized I think something, this is the cash outflow, the cash outflow as Mr. Chhabra has said but the capitalization will come in next year maybe in quarter two or something like that.

Govind Chellappa:

If I could slip in one more question, what is the proportion of Maestro you are doing at this point in time to the Maestro plus Maestro Edge combined, the old Maestro?

Ashok Bhasin:

Old Maestros, still running at about 15% of our business which is obviously much lower. That is coming down very sharply and Maestro Edge is picking up very substantially.

Moderator:

Thank you. Our next question is from the line of Hitesh Goel from Kotak Securities. Please go ahead.



Hitesh Goel: Just wanted to get a sense of this gross marginbenefit which is around 130 basis points on a

QonQ basis, can you just break it down between commodity cost, leap benefit and any negative

from the product mix side?

Ashok Bhasin: As you think, as Ravi Sud has told that because of the competitive price a major benefit is

coming and partly it is coming from the leap 80 basis points for the full year.

Surender Chhabra: For full year if you want to know the contribution of leap in the last three months, October to

December in terms of absolute value this would be about 70 crores.

Hitesh Goel: And rest is all commodity benefits?

Surender Chhabra: Commodity benefits, yes.

Hitesh Goel: And sir it would be negative on the product mix also right, because scooters would be lower

profitable than Splendor and Passion, right?

Ravi Sud: So on the product mix side we do not have any ASP loss.

Hitesh Goel: No, no on the margin side, on the gross margin side, contribution level side.

Ravi Sud: Margin size none because our 125 cc motorcycles are doing well, so we are having good margins

there.

Hitesh Goel: So within motorcycle the mix has offset the scooter mix, that is what you are saying?

Ravi Sud: Yes.

Hitesh Goel: And sir, my last question would be, basically you said the delayed inventory is around four to six

weeks, right?

Ravi Sud: Around six weeks.

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

ahead.

Mukesh Saraf: Sir, first question is on your other expenses again, in the second quarter you had mentioned that

other expenses was about 2.2% of sales and this quarter you have mentioned it is about 3% of sales, so we are obviously seeing some other incremental other expenses also, is there anything that you would want to highlight there because it is quite substantial 130 basis points increase in

other expenses on a QoQ basis.



Surender Chhabra: Mukesh, there is no major expenditure on other head except for that advertising and publicity.

During this festival period normally we have, if you see our past history also, during festival periods if I say October till December, because of the good weather in the country you have the events also from the different I think sponsors, so all these activities fall within this quarter. So

always we have this quarter as a major expenses.

Mukesh Saraf: Yes sir, that is part of the A&P that you mentioned, 3% of sales?

Surender Chhabra: Yes.

Mukesh Saraf: But there is nothing else apart form that you think can.

Surender Chhabra: Normal expenditures which fall every quarter.

Mukesh Saraf: And my second question is on your this newly launched Splendor iSmart 110 cc, just want to

understand there, would your current Splendor iSmart which is the 100 cc continue or would you be discontinuing that? In the previous quarter you mentioned that the iSmart is doing about 40k to 50k a month run rate, so how much do you expect from this new iSmart on a monthly run rate,

so if you could just give some sense on that?

Ashok Bhasin: So two things, I think we would look at phasing process for the launch of the new model and

subsequent to that it will be the 110. However, as far as the numbers are concerned, I think as we said we will report them and we will all get to know what they are, we do not want to put

numbers for the future at this stage.

Mukesh Saraf: But would it be fair to assume, I mean as a customer what new are you bringing in with this

Splendor iSmart apart from that fact that it is 110 versus the 100 cc earlier, is there anything new

that you are bringing with this Splendor iSmart?

Ashok Bhasin: I think it is a combined value proposition, so it is not just 100 to 110 but I think as you know it is

a completely new engine so therefore the performance, the torque, the power, fuel efficiency, all of those things are going to be differentiated and better and we believe it will be a compelling

consumer proposition. We also showed it at the Auto Expo in the last few days.

Mukesh Saraf: So the last thing is just around, when do you see the commercial launch of the iSmart and then

the Xtreme S also?

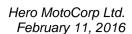
Ashok Bhasin: So those two models have been shown at the Expo, I think closer to the date of launch we will

share, I think one of them is directional on styling and concept, but work will go on and we will

give date closer to the time of launch.

Moderator: Thank you. Our next question is from the line of Pramod Amthe from CIMB India. Please go

ahead.





Pramod Amthe:

Two things, one, the Splendor iSmart is completely developed in-house, what all activities have been taken up? And what has been the capability built up in-house so that what to expect in terms of your development cost per vehicle, how speedily you can bring it in terms of timelines the new products?

Ravi Sud:

First of all, it is very difficult to answer your question. But as you know, it is a long journey and we started this journey in 2011 and 2012, 2013 and 2014 you would have seen some variants and refreshes and you also saw very successful iSmart launch and 2015 you have seen new platforms in terms of scooters. And as we have been saying, they have been very well accepted, we have gained market share, we have reached about 20% - 21%. And I think we will continue our journey to excel and build up our own capabilities, it is a long-term process.

Pramod Amthe:

Sir, would you like to give some color in terms of how much engine development cost and might be model modifications, exterior.

Ravi Sud:

These are the things that I do not think we would like to share it individually, I think you can get the figures of R&D spends as a consolidated figure from our published accounts, that is it, I would like to leave it there.

Pramod Amthe:

And second one is for Ashok, wanted to check what is your feel on competitive intensity now especially in the motorcycle segment and would you be looking at it to gain market share or to trade off on the margins front if the intensity reduces?

Ashok Bhasin:

If the intensity reduces, is that the question?

Pramod Amthe:

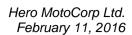
Yes, what is your current feel in terms of market competition intensity on the ground in the last couple of months, especially Honda has been cutting down or going slow on some of the inventories.

Ashok Bhasin:

So I think inventory management or competition, I would not like to comment on, I think they are best players to comment on that. As far as our own performance is concerned, I think I said in response to a prior question that despite a tough year for the industry and significant competitive activity, Hero has come out very successfully with continuing to have dominant market share in motorcycles of 50% plus and a significant increase in market share in scooters. So I think we continue to do very well despite whatever everybody else is doing, because I think everybody has got to play their own game and we will use all in our repertoire to build on this success.

Ravi Sud:

And just to add to that, if your question is that what happens to our margins because of that competitive intensity going up, you will recall that we keep on running these programs like Leap or Lead or looking at the profitability of spare parts from time to time so that we do not let our margins be compromised and I think that journey will continue.





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

Chirag Shah: Sir, I have a question on scooters, what would be the breakup between motorcycle and scooter in

terms of mix in the leading metros or in the southern and the western market, while all India is

30%, how much it would be in markets where they are well penetrated?

Ashok Bhasin: I think it varies, so there are markets like those in the south like Kerala where it is dominant

scooters which is close to 65% - 70%, there are markets like Goa which is north of 75% and then there are markets where motorcycles are still 65% - 70%, so it varies by state I think. But we can all see that even in scooters the growth has significantly tapered down, so I think the market as I have always said it is a large industry and it would need multiple formats to succeed, so I do not think it is an either or, I think motorcycles and scooters both the distinct formats will have a future to fulfill consumer needs and now with Hero's expanded portfolio, I think we are one of

the stronger players than ever before.

Chirag Shah: But sir would it be right that for further rapid increase in market share of scooters, the so called

Hindi belt has to really gain prominence, is it actually happening?

Ashok Bhasin: We know that the mix between scooters and motorcycle has been moving by about 150 to 200

basis points on an annualized basis, so this is the combined effect of everything that is happening in all the markets put together. So yes, scooters is growing faster than motorcycle, but what I am saying is it is still a 2:1 ratio between motorcycles and scooters and I think in the future as you

look at it there will be a strong compelling business opportunity for both strongly enough.

Chirag Shah: And sir on the commodity benefits, all the benefits are there in the price and the recent

announcement by the Government on raising this MIP or safeguard duties, how would it and

when it will start affecting you?

Ravi Sud: I think these are very-very early days to even to comment, but definitely there could be some

impact, at this point of time one is not able to quantify it.

Chirag Shah: And the benefits are largely there in price or some commodity price benefits are there because

we have a quarter lag, so how should one look at?

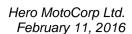
Ravi Sud: No, that is internal company policy that we work with the lag of one quarter, so like whatever

would have happened in quarter three both positive or negative if any, will come in quarter four and quarter 4 benefit impact will come in quarter one of next year. Except for 30% to 40% where this rate amendments are settled as per our understanding with the vendors within the same

quarter.

Moderator: Thank you. Our next question is from the line of Karthik Chellapa from Buena Vista Fund

Management. Please go ahead.





Karthik Chellapa: Sir my first question is, what percentage of our sales today is financed by Hero Fincorp?

Ravi Sud: Well, on an average Fincorp is financing about 45,000.

Karthik Chellapa: 45,000 per month, is it?

Ravi Sud: Yes, 45,000 per month, for the full year say FY16 they will be financing about 470,000 to

475,000. So now they are at a level of about 45,000 per month.

Karthik Chellapa: And how many branches have we rolled out Hero Fincorp currently sir and what are the plans for

next year?

Ravi Sud: See, Hero Fincorp branches are many, they operate at our dealer premises and out of 800-odd

dealers they already had more than 650 dealers and the scope for further expansion in dealership is very low. But I think our second step with this company doing for deeper penetration is going to the SSPs and the ARDs. ARDs are basically branches of the mini-dealer. So if I tell you a total number, I think they are already at 650 dealerships, plus the total number today is close to 1,500 which means 650 plus another 850 which are the SSPs and ARDs and that is where the focus of

this company is now and will continue in next year also.

Karthik Chellapa: Sir my second question is on the economy segment, you alluded to about the pricing strategy by

some of your competitors earlier and Honda has also showcased an interesting concept at the Auto Expo which is priced more or less in that economy segment. So apart from better engagement, branding, etc, specifically can you talk about a few strategies that you are working

on for you to safeguard your share in the economy segment?

Ashok Bhasin: I think I cannot speak to my future actions, but as I said we are confident of continuing with our

leadership position and taking actions as required on different elements of the marketing mix.

Karthik Chellapa: Can we assume that there has been no any price discounting or any action in the nature of

discounting till now in the economy segment?

Ravi Sud: Yes, we do confirm that there is none by Hero, by us.

Karthik Chellapa: Sir, one more question on the export side, given the kind of weakness that we have seen in say

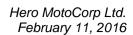
some of these African markets and Latin America, is there a need for us to revisit our export targets for next year because this year we had targeted somewhere around I think 280,000 to 300,000 of export units and probably a higher number in FY17, is there a need to revisit those

targets in the light of what is happening in those markets currently?

Ravi Sud: Let me answer it this way, you see it is a very-very dynamic market and particularly the global

economy and things change overnight, like I answered to one of the questions that in Argentina

the currency depreciated by 45% in one day, and in Columbia currency has depreciated by 65%





in last 15 months. So naturally, as things evolve, we have to be in touch with reality and change our plans. You are absolutely right, we had communicated a number of 275,000 to 300,000 for the current year, but I think we may fall short because some of the market if we wanted to enter, like Nigeria was one which now we have finalized a distributor, we will be able to enter sometime in March end, numbers will be insignificant. So similarly Mexico, search is going on and we expect to close it by end of this quarter. As far as Argentina is concerned, depreciation of currency by 45% in one day, the whole business becomes unviable. So you are right, we will be working out our budget numbers.

Karthik Chellapa:

And sir just one follow-up on the scooter segment, do you see the ladies-only segment which is represented by the likes of say Pleasure or Scooty kind of structurally declining over the next two to three years as preference shifts towards Unisex?

Ashok Bhasin:

I am not reading that at this point in time, I think options for the female gender are expanding but the market is also growing. So I am currently not reading any signs of decline for that franchise.

Moderator:

Thank you. Our next question is from the line of Sumanta Khan from ICICI Prudential Life Insurance. Please go ahead.

Sumanta Khan:

My question is regarding your other income, this year it has fallen a bit and probably it is because of the FMP accounting, can you throw some light how did we trend in the near term?

Ravi Sud:

There are two types of other income, one is the operating other income and second is other income, which one are you talking?

Sumanta Khan:

Other income.

Please go ahead.

Ravi Sud:

Other income is basically the treasury income, so you see over a period of time the size of treasury has come down because of the huge payout of dividend which we did in 2011, 2012, we gave special dividend and then we have lot of commitments to build our capacity as well as expenditure on R&D. If you look at interest rates, last six to nine months they are on the downside and hence theoverall booking of other income is maybe slightly lower than what you will see. And if you look at 2014-15, yes there is an anomaly because we had given an interim dividend in August 2014 and because of that we had to book some 90 crores of extra other income in that quarter two of FY15.

Sumanta Khan:

So the current run rate is what we should build in in our numbers?

Ravi Sud:

Yes, around that, maybe plus minus 10%.

Moderator:

Thank you. Our next question is from the line of Ashutosh Tiwari from Equirus Securities.



Ashutosh Tiwari: Sir you mentioned that rural market is under pain but are there any distribution among the state

which are doing better or across all it is bad market only?

Ashok Bhasin: Markets in the east are better placed at this point in time.

Ashutosh Tiwari: By east you mean Orissa and all?

Ashok Bhasin: Bihar, Orissa, West Bengal, those are slightly better.

Ashutosh Tiwari: And what about UP and other northern states, UP, MP and all?

Ashok Bhasin: Parts of MP are quite affected and parts of UP are also quite affected.

Ashutosh Tiwari: And sir about scooter penetration, I mean what it would be for southern region, how much it is

penetrated in south and west particularly?

Ashok Bhasin: Overall market penetration is around 30% for two wheelers, in the case of south scooter

contribution is much higher so penetration is higher, but overall penetration is 30% for two

wheelers.

Ashutosh Tiwari: But any rough numbers on how much it is south and west?

Ravi Sud: I do not have the state wise numbers with me right now.

Ashutosh Tiwari: And sir, CAPEX number you mentioned for the current year 1,100 crores to 1,200 crores for that

Halol plant?

Ravi Sud: No, that is only cash outflow which we have mentioned there for Halol plant because Halol plant

is going to be capitalized in the next year, in the beginning first half of the year.

Ashutosh Tiwari: So cash outflow this year would be 1,100 crores and any other CAPEX this year?

Ravi Sud: That is for R&D, Jaipur R&D.

Ashutosh Tiwari: And next year how much it would be roughly?

Ravi Sud: As far as Jaipur R&D is concerned, that will be capitalized in the current year, so there I would

say if at all there is any CAPEX in R&D next year it will be very-very insignificant. As far as Gujarat plant is concerned, I think majority of the outflow will happen in this quarter and also in

the first quarter.

Ashutosh Tiwari: So next year overall CAPEX will be quite minimal?



Ravi Sud: The overall CAPEX, I can tell you two or three things. One is, one activity which would be the

Gujarat plant, second activity would be some investments in tools, dies, moulds and this thing which we generally budget under 50 crores to 200 crores every year and routine maintenance CAPEX which we again budget about 100 crores to 200 crores. But the major CAPEX would be

only for Gujarat plant.

Moderator: Thank you. Our next question is from the line of Amyn Pirani from Deutsche Bank. Please go

ahead.

Amyn Pirani: Sir, my first question is just a recap on the inventory levels, how would six weeks compare to

what you would have seen historically post the festive season, because I can understand that before festive season inventory does go up, but post festive season is this is normal compared to

historical trend or is it on the higher side?

Ravi Sud: You see, if you remember in the last call the inventories were between six to seven weeks

because that was before the festival season, post festival season you see the normal inventory levels what we have described for dealers is four to five weeks. If we are saying that inventory is

below six weeks which means, there is one-week extra inventory as of now.

Amyn Pirani: And sir on the CAPEX side you mentioned that for Gujarat plant there would be a cash outflow

of around 1,100 crores - 1,200 crores this year, could you give us a broad number for next year,

would there be any cash outflow for Gujarat next year?

Ravi Sud: Very-very small as far as the cash is concerned, it will be basically everything should go into

either advances or into the capital work in progress and next year will be the capitalization.

Amyn Pirani: And sir lastly was a question on your exports, see in Columbia and Bangladesh you have this

joint venture where you will be doing the final assembly of the products, so I just want to understand when you sell products in these markets would they be part of your export volumes or will, because since you are making the final assembly there how would it be accounted in your

volume numbers and your top-line?

Ravi Sud: You see, let us take the example of Bangladesh, Bangladesh today we are working on a

distributors model, so whatever gets supplied to the distributor it gets accounted for in my exports. Now when it is our own subsidiary, certain kits will have to be exported, so that will be counted as my export and any value addition which the local company will do will be accounted

for in the subsidiary's balance sheet.

Moderator: Thank you. Our next question is from the line of Gokul Maheshwari from Allard partners. Please

go ahead.

Gokul Maheshwari: Just wanted the spare revenues for the quarter and the nine months, I mean what is the growth for

the quarter on a nine months?



Ravi Sud: You see, as far as sharing of revenues is concerned, we may not be able to give you the figures

but we can tell you that in the current year the spares have grown between 17% to 18%

compared to last year.

Gokul Maheshwari: And this would be for the full nine months' period?

Ravi Sud: Yes, I am saying figures for full nine months where they have grown 17% to 18% in terms of

value.

Moderator: Thank you. Our next question is from the line of Akshay Saxena from Credit Suisse. Please go

ahead.

Jatin: Good evening sir, this is Jatin. My question is on the emission norms on the two wheeler side in

the next let us say three to five years, what are the changes that we can expect and with each

change what is the kind of price increase do you envisage?

Ashok Bhasin: So as you would know that the draft notifications have not come, there are other thoughts which

are getting discussed, all I would say is that Hero would be fully compliant and as a leader we do believe in environment portable solutions and it would be fully compliant with whatever the needs are. And in fact at Auto Expo we have also shown are leadership position with e-concepts on two wheelers as well. So our work is going on and we would be well placed to work with the

regulations.

Jatin: Sir, that is on the BS-VI side that the notifications have not come in, but on the BS-IV side, is

there any change expected next year?

Ashok Bhasin: As of now the date of implementation stands.

Jatin: And with BS-IV, what is the kind of price increase that could happen or what are the changes

that need to be done?

Ashok Bhasin: Well, may not be possible to share with you the amount, but our expectation is whatever is the

price increase the industry will pass it on to the end customer as of now. And according to us it is

not very-very significant, it is not significant amount.

Jatin: So last time around I think it was around Rs.1,100, it should be lower than that this time?

Ashok Bhasin: Well, I have no comments here.

Jatin: And just a quick kind of check on, what is the cash on books right now, I think that question may

be was asked and I missed it.

Surender Chhabra: About 3,000 crores.



Moderator: Thank you. Ladies and Gentlemen, due to time constraints that was the last question. I now hand

the conference over to Mr. Ashish Nigam for the closing comments. Thank you and over to you,

Mr. Nigam.

Ashish Nigam: Thank you. On behalf of Axis Capital, thank you all for joining the call today. And thanks again

to the Hero MotoCorp Management for giving us the opportunity to host this call. I will quickly

hand it over to Umang for any closing comments.

Umang Khurana: That is all. Thank you so much everyone for joining us and look forward to keeping in touch.

Have a good day.

Moderator: Thank you very much. Ladies and Gentlemen, on behalf of Axis Capital that concludes this

conference call. Thank you for joining us and you may now disconnect your lines.