



“Hero MotoCorp Limited Q2 FY 2016 Results Conference Call”

October 21, 2015



ANALYST: MR. SONAL GUPTA – UBS

MANAGEMENT: MR. RAVI SUD - SENIOR VICE PRESIDENT AND CHIEF FINANCIAL OFFICER – HERO MOTO CORP LIMITED

MR. SURENDER CHHABRA - VICE PRESIDENT CORPORATE FINANCE - HERO MOTO CORP LIMITED

MR. A. SRINIVASU – HEAD NATIONAL SALES– HERO MOTO CORP LIMITED

MR. ASHOK BHASIN – HEAD SALES, MARKETING & CUSTOMER CARE – HERO MOTO CORP LIMITED

MR. UMANG KHURANA – HEAD INVESTOR RELATIONS – HERO MOTO CORP LIMITED



Hero MotoCorp Limited
October 21, 2015

- Moderator:** Ladies and gentlemen, good day and welcome to the Hero MotoCorp Q2 FY 2016 Results Conference Call, hosted by UBS Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Sonal Gupta of UBS Securities. Thank you and over to you, Mr. Gupta!
- Sonal Gupta:** Good afternoon everyone. On behalf of UBS Securities I welcome you. We are delighted to have with us today the senior management team from Hero MotoCorp to discuss the results and outlook. I will now pass on the floor to Mr. Umang Khurana who recently joined as Head of Investor Relations to introduce the management team and his opening comments. Thank you.
- Umang Khurana:** Thank you Sonal and welcome everyone, good day. We are happy to discuss the financial results with all of you today. We have on the call for you Mr. Ravi Sud - Senior Vice President and CFO, Mr. Ashok Bhasin – Head Sales, Marketing & Customer Care, Mr. A. Srinivasu – Head, National Sales and Mr. Surender Chhabra - Vice President, Corporate Finance. We have budgeted an hour for the call and happy to take it from there. Thank you, Sonal again for hosting the call. We will begin straight into Q&As.
- Moderator:** Thank you very much sir. Ladies and gentlemen we will now begin the question and answer session. We have first question from the line of Pramod Kumar from Goldman Sachs. Please go ahead.
- Pramod Kumar:** Good afternoon Sir and thanks a lot for your time and the opportunity. My first question pertains to your Haridwar operations Sir. For the quarter how much of the production actually came from Haridwar?
- Management Speaker:** Pramod, Haridwar operations are contributing 39% to 40%. So that same percentage is continuing. There no change in that.
- Pramod Kumar:** 39% to 40% of volume so the revenue contribution would be at higher right given the fact that we have a bit of excise retention there?
- Management Speaker:** Yes lot of slightly higher because there is an advantage of the excise duty will be part of the sales.
- Pramod Kumar:** Exactly so localization level is quite high is that fair to assume that the localization in that for the state of Uttarakhand would be like somewhere like 80% plus. So that you can retain as much benefit as possible in the excise duty side?



*Hero MotoCorp Limited
October 21, 2015*

- Management Speaker:** The point is that the raw material we have to import from interstates as it comes. As far as that value addition is yes that localization is high there.
- Pramod Kumar:** Sir because I am trying to understand because from FY 2018 this benefits starts going away right you will complete the ten-year term and you will have to start paying excise duty and you have a fairly you by far have some most higher exposure to the tax sufficient operations. I was just wondering what would be the extent of price increase or other actions which will be required to offset this particular impact on the realization and earnings?
- Ravi Sud:** We have done some working internally and we find this fiscal right away and impact on EBITDA could be in the range of 75 to 100 basis points, if other things remain constant.
- Pramod Kumar:** This is impact on EBITDA you are saying the line is bit not clear but I just want to confirm the impact on EBITDA could be like 75 to 100 plus.
- Ravi Sud:** That is correct. Other things remaining constant but how to protect our EBITDA going forward, that we are already working on and so we shall share with you as and when we still have couple of years.
- Pramod Kumar:** Just a follow on this 75, 80, 100 BPS impact on EBITDA it will flow down direct to the tax level or will there be some benefits of the tax level which you expect will come through?
- Ravi Sud:** Today, as you know 30% of the income from Haridwar we get tax exempt. So the figure I have given you is before tax. So there is a direct impact on EBITDA i.e. if Haridwar benefits go away, the impact is around 75 to 100 bps.
- Pramod Kumar:** Sir my second question pertains to the current demand environment and what Hero is doing in that context because the feedback generally has been like demand is not up to the mark especially in the rural pockets. So just want to understand how are you seeing the season so far because you already had Ganesh Chaturthi and now Navratri, Dasara is almost here. So just wanted to however you looking a demand especially in the rural pockets and also are you running any promotional schemes or offers like what you have been doing online for Snapdeal. Is there anything which is happening on the other dealer side for to incentivize demand at this point in time?
- Ashok Bhasin:** Good afternoon once again. Two things we all know that both quarter one and quarter two was soft for the industry both in urban and rural. Rural was a little more impacted as you rightly said the festive season has just begun. Our focus is on guiding the execution with the new launches that we have done, which is the scooter launches and the Splendor Pro that is getting rolled out and the Splendor Plus thus far and also continuing the momentum behind another models like Passion and HF Deluxe. During this period we believe that the demand should pick up. Festive season has just begun.



Hero MotoCorp Limited
October 21, 2015

The real festive reason I mean the big festive season is now and we will review this post Diwali. We are putting all actions in place and driving them in the field.

We are not a discount driven model so we are not focusing on discounts and schemes but yes in terms of explaining customer experience, inquiry management, lead generation, test drive programs. Those are the things that we are driving along with some very significant and effective advertising on Splendor, Passion, iSmart and other models.

As far as the Snapdeal is concerned Snapdeal during this period is also collaborating with us and running special programs and so some of our partners for consumer finance like Hero Fincorp and other. So that is the combination which is running. So our focus is on fundamentally good product, suiting consumer, advertising, customer experience and inquiry management.

Pramod Kumar: Sorry the reason why asked that was there was an input from Rajasthan that you are giving away Rs.1250 as a discount for government employees and there is an insurance free scheme as well, which is running for people who buy the vehicle on financing with some three or four financiers. So just to understand that is something which we have not seen in the past from Hero in the festive season because demand generally is good. So I just want to understand is it like something which just been done purely by the dealer or the company is also in a way planning with the dealers and running it as risky?

A. Srinivasu: I am Srinivasu here. I Head the National Sales.

Yes the insurance free scheme is being given my financiers essentially by Hero Fincorp, HDFC and IndusInd. These three financiers are giving the insurance free scheme and they doing it on their own and if you look at the government employee scheme that you are referring to in Rajasthan these are markets specific promotions being done by dealers to support well. Any institutional sales we give them a particular support especially to dealer. We support dealers with the particular amount of money. So that it keeps happening not just during the festival. We have been doing this government employee scheme now for the last three months. It is not specifically festival oriented as such.

Pramod Kumar: Thanks a lot and best of luck Sir.

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

Kapil Singh: Good afternoon and congrats on a strong set of results. My first question relates to ASP. We are seeing a stronger growth and sales. So is there some insight as to why ASPs have gone up. Is there spare part sales which have increased much more this quarter?



Hero MotoCorp Limited
October 21, 2015

Surender Chhabra: Kapil, I am Chhabra here. The published result for the revenue is in two wheelers and the spare parts together. If we compare corresponding period, previous period and current period you will see some changes in the ASP and that is only really because of that spare parts sale, which vary from quarter-to-quarter.

Kapil Singh: So will it be possible to share the number?

Surender Chhabra: Apart from the product mix which is favorable and in the product mix I will say that the 125 cc share has increased. So that is the advantage, which we are getting ASP prices.

Kapil Singh: Sir is it possible to share the spare parts sales movement?

Ravi Sud: That is not the public domain but Kapil just to give I tell you, spares are growing more than 16% compared to previous year.

Kapil Singh: That is helpful Sir and secondly Sir we have talked about margins improving quite rapidly and that LEAP program benefit continuing. So any insight as to how much of that we have realized now and what can we look forward to? Secondly we have seen that second half typically the margins come down because of higher A&P spend. So any color on that would be helpful.

Ravi Sud: Kapil, I need to take you back to the same question which you had asked in the first quarter's call and I must reiterate that we work with a lag of one quarter as far as input costs are concerned. So whatever benefits you are seeing in quarter two, basically relates to quarter one and I remember I shared some figures or some percentages and we will get that as a benefit and that benefit has come.

Now if you see our EBITDA compared to H1 of previous year there is an increase of close to 200 plus basis points. There are two factors which are leading to it; Number one 15% to 18% growth which is in our spare parts sales. It is definitely higher margin number one. Number two after Q4 of previous year the commodities have been pretty soft. Number three is basically LEAP program. As shared in FY 2014, FY 2015 we have added about 169 Crores and 329 Crores respectively and I also spoken about guidance for the current year that it will be in the range of 70 to 75 basis points. So that program is adding significantly to the EBITDA.

Kapil Singh: How much of that 70 to 75 basis has already come?

Ravi Sud: For the full year and if you take a turnover of say 30000 Crores you can say 70 basis will give you 200 Crores and the program is going on track. Your issue was about sustainability on the margins, you are absolutely right, our ad spends in the quarter three is generally high. My view would be that for a full year we should close the year around 15% EBITDA.



*Hero MotoCorp Limited
October 21, 2015*

- Kapil Singh:** That is helpful. Thanks. I will followup in the queue.
- Moderator:** Thank you. The next question is from the line of Binay Singh from Morgan Stanley. Please go ahead.
- Binay Singh:** Hello team. Congratulations for good set of earnings. My question is on the new launches on the scooter side. We have seen that Hero market share was almost 19% and slowly went down over the year. So what different this time like we are again aiming to be a strong bear in the scooter side. So could you talk a little bit about what is your strategy? Why are you like how do you think that you will be able to retain market share because the product that we outset like it is bit of monetize will they include similar. If you could talk about what gives you the confidence and how are you planning to approach with these two new scooters?
- Ashok Bhasin:** There are two things. First of all even with our exiting portfolio of scooters which is Maestro and Pleasure we did indicate in the previous conversations that some of the dispatches market share that was getting reflected was affected because our retails were much higher in the first few months versus the dispatches. Our market share actually at the end of September is already back to 14% now vis-à-vis 12% which has gone down. Now going forward in the second half of the year we believe that as the launches get rolled out starting with Maestro Edge which is absolutely a very good product shooting even consumer with all the features and quality and then the Duos will follow and these will bring significant incremental share. I think in ten months from now we should be discussing all the game but our objective clearly is that by bringing the presence to the broader portfolio of these products our market share will grow over the next few quarters.
- Binay Singh:** Any target you would like to share on your market share where you sort of fire to reach?
- Ashok Bhasin:** We do not want to put a number to it but we have said it in our test launch itself this is a journey towards leadership we are dominant leaders of motorcycles and in two wheelers and these launches and other actions that will follow. This is a journey towards leadership in scooters and just like we lead in motorcycles we will lead in scooters. This is expected in that direction and we have to pick it up as it goes.
- Binay Singh:** Just lastly on the margins in scooters because on one side we would not be paying royalty to Honda but on the other side it does that the marketing spend on scooters across players is going up. So how would you look at the margins on the scooters now including the new scooters versus your current motorcycle portfolio?
- Surender Chhabra:** Binay, I am Chhabra here. I think we have shared that whenever we come up with the new launches we get improvements in the margins subsequently because of sales improvement in that numbers. So



*Hero MotoCorp Limited
October 21, 2015*

yes Maestro has a royalty and other models are not having any royalty the margins will be better on these products as compared to Maestro in the coming months.

- Binay Singh:** Okay but they still will be lower than motorcycles?
- Surender Chhabra:** In motorcycles as we told earlier we have multiple barriers. One model has five to six variants whereas in scooters this time you have up with the two variants LX and VX. So this model motorcycles is always more than that scooter.
- Binay Singh:** Thank you so much and good luck for next.
- Moderator:** Thank you. The next question is from the line of Sonal Gupta from UBS Securities. Please go ahead.
- Sonal Gupta:** Thanks. Just persisting with the scooter question, I mean why have you decided to launch almost simultaneously two scooters and all of them now you will have three models in the 110 cc category, so just I mean if you could just talk about how do you plan to differentiate or position these separately in those terms?
- Ashok Bhasin:** Sonal with our current portfolio we have had Maestro and Pleasure both of which are top selling models in their respective segments. Pleasure more sharply targeted at women and Maestro more probably targeted at men and we have achieved considerable success with those two models. Now with the launch of Maestro Edge and Duet that will follow we believe there is place and opportunity for our entire portfolio. Maestro Edge actually will take the journey of positioning of Maestro forward so it is more masculine, more sporty, more bold energy product has is also reflected in its styling and then the Duet, which is going to be our first metal body scooter, it is actually going to be designed so that is going to suit and appeal to a lot of different member to the family both females and males and we believe that just in this positioning one focus more sporty and bold on male, Pleasure on female and Duet more like a universal design there will be opportunity for all three brands to succeed in the scooters business going forward.
- Sonal Gupta:** Just related to that I mean given that is the Duet launch on track or has it got delayed because I mean it looks like given that you not shipped till now. You might miss out on the festive season?
- Ashok Bhasin:** We had said when we did the 29th September press meet that we are starting Maestro Edge and Duet will follow. I would say we are on track to those plans and as we go forward more news will be shared on that. We are absolutely on track with our plans.
- Sonal Gupta:** Just last question from my side. Just wanted to understand to I mean on the motorcycle side we have seen decline year-on-year. So have we seen decline both in rural and urban markets or is it just in the



*Hero MotoCorp Limited
October 21, 2015*

rural markets. Just if you could give some light on that is to how the two markets have behaved for you?

Ashok Bhasin: In the first half both urban and rural for motorcycles has got impacted as you know the industry in motorcycles was down by 5% in first half. I would say in rural the decline would have been slightly higher maybe more like an 8% to 10% and the urban would have been a lower number of 2% to 3%, so both have got impacted. Rural of course have got impacted more so indicated by many other indicators from rural demand.

Sonal Gupta: Great. Thank you so much for taking my question.

Moderator: Thank you. The next question is from the line of Raghu Nandan from Quant Capital. Please go ahead.

Raghu Nandan: Good afternoon Sir. Thank you very much for the opportunity and congratulation on a stronger operational performance. Sir on the rural side how do we expect demand to pan out? I mean how do you see the demand picking up? Would the base help in initially and on a gradual basis do you expect a revival? That was my first question. Secondly on exports, Columbia operations have started. So what kind of a ramp up or production is expected there in the current year and how do you see that panning out? Thank you Sir.

Ashok Bhasin: So on rural, I would answer first Raghu Nandan. Certainly, we are executing actions to help recovery in the rural and in the market how it pans out, we will have to see over the next few months. It is a soft spot and rural turnaround is not going to be rapid but we are looking at gradual recovery and as we said we cautiously optimistic on how the next few quarters will pan out but all actions are in place to drive the momentum with the consumer. As far as the exports is concerned I will turn it over to my colleague Mr. Ravi Sud.

Ravi Sud: You really need to know about Columbia operations, Yes the plant has been inaugurated over a month back and we have started our dispatch of CKD components from India about three months back. As far as the volumes are concerned as of now we are doing anything between 2500 and 3000 numbers a month but as I have stated earlier this CKD operations starting and the local manufacturing starting there, there is going to be a benefit of over 27% in the custom duty and our plan is that by the end of this year the volumes should go up to about 4000 a month.

Raghu Nandan: Thank you Sir that was very helpful. Finally if I could a free that question like for this year FY 2016 how do you see the industry growth and growth for the company?

Ashok Bhasin: The first half industry numbers are in the public domain. The two wheeler industry is down 1%. As far as the second half is concerned, we do expect recovery driven by the festive season and then the



Hero MotoCorp Limited
October 21, 2015

fourth quarter. Our final numbers we were have to see how they pan out and we could see post festival and at the end of the next quarter.

Raghu Nandan: Thank you very much.

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

Mukesh Saraf: Thank you for taking my question. Firstly, if I look at your gross margins, which was probably the highest that we have seen for a last say 20 odd quarters. So we do know and you have mentioned about the softening raw material cost but if I look at is say first half this year and second half of last year it is more than 200 odd basis points improvement. So how much of this would just be the softening raw material cost? How much the product mix or your LEAP program?

Surender Chhabra: As Mr. Sud has told that LEAP program we are having that benefit is flowing to us and for the year we are expecting 75 basis points.

Mukesh Saraf: Yes that would be probably at your EBITDA level just understanding just trying to understand it on your gross margin level?

Surender Chhabra: The gross margin numbers mainly it is coming from that the softening of that metal prices.

Mukesh Saraf: So most of this improvement have been softening raw material cost only?

Ravi Sud: Yes let me add couple of things. As I stated earlier the inputs have been pretty soft since quarter four onwards and they continue to be soft. And if you are saying that the major improvement about 200 odd basis point, majority of it is definitely input cost coupled with LEAP savings - Margin Transformation project. Majority will be with the softening of the input cost and if it is 250 basis points, it is going to be 200 on account of softening of the input cost and about 40 to 50 basis point as of now will be on account of the LEAP saving.

Mukesh Saraf: Last quarter you had mentioned that your advertisement and promotion spend was close to 2.1% of sales. How much would it be in this quarter Sir?

Surender Chhabra: It keeps on varying from quarter-to-quarter, you have the trending at about 2% and quarter three this will be high but for the full year our as far we keep it within 2.1% to 2.2%.

Mukesh Saraf: Just understanding the scooter launch program again just some feedback that you can that there could be some change in your strategy relating to the region south or north. So could you just explain a bit



*Hero MotoCorp Limited
October 21, 2015*

are you looking to launch say the Duet first in the south and may be the Maestro Edge first in the north or is there anything like that you would like to throw some light on.

Ashok Bhasin: So we have begun with the Maestro ad and the Duet will follow state specific launch rollout details we can share as we go along but we will be national with the scooter launches where the program progresses.

Mukesh Saraf: We have not seen any ads start for the scooters. So just trying to wonder is there some capacity are you looking to kind of is there some capacity constraint or anything like that?

Ashok Bhasin: So advertising should always follows product distribution. As far as distribution enablement and LEAP program is going well and coinciding with that advertising in many states has already begun in fact for Maestro Edge, Hero Campaign that has been launched "Feel The Josh" it is there in the leading newspapers yesterday and there was also an ad few days ago and the program will continue as the festive program develops. So advertising has begun both in-store, in-street. So to answer your question on capacity we have a capacity of 1.3 million and that will be more than another 1000 in the month. So festive is not the reason.

Mukesh Saraf: Sir this is operational capacity about the lakh a month?

Ashok Bhasin: Yes.

Mukesh Saraf: Thanks a lot.

Moderator: Thank you. The next question is from the line of Sahil Kedia from Barclays. Please go ahead.

Sahil Kedia: Thank you for this opportunity. I just wanted to get a sense of the pipeline of new products etc., I think we had earlier said that there will be two to three new products every year, just wanted to check on that number one? Number two going into the festive season what is the kind of inventory that we are carrying and has there been a reduction in the inventory that you have done?

Ashok Bhasin: So as far as the new product program is concerned we had said that in the conference call we had said that the scooters will follow in the next couple of quarters. So we have unveiled and started the process with that both Maestro Edge and Duet that will follow. We have also just rolled out started rolling out the new Splendor Pro. So with that we already have three important initiatives that are getting into the market and others would follow at appropriate time and we will share details of those as and when that happens but I think we have really strengthened our portfolio and our LEAP program in the market, both in scooters and in motorcycles.



*Hero MotoCorp Limited
October 21, 2015*

- Sahil Kedia:** On the inventory side?
- Ashok Bhasin:** Inventory as we had said last time, keeping into festive season we have taken actions to build inventory at the dealership level keeping in view the festive and we believe we are appropriately prepared for the demand growth that we are all driving.
- Sahil Kedia:** So can you share a number with us in terms of weeks?
- Ashok Bhasin:** We would be somewhere between six to seven weeks.
- Sahil Kedia:** Seven weeks and this is normal ahead of the festive season right?
- Ashok Bhasin:** Yes it is.
- Sahil Kedia:** Has there been any pricing action in the quarter and also in the first half?
- Surender Chhabra:** Chhabra here. As far as pricing on the motorcycles is concerned, as and when we have come up with the variants, yes we have taken some marginal price increases. There is no major all across price increase. You are seeing that the prices are softening on the raw material. So we have not taken any call but variant wise, yes we have gone and defined the new prices.
- Sahil Kedia:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Chirag Shah from Edelweiss. Please go ahead.
- Chirag Shah:** Thanks for the opportunity. I had a question on your average realizations for the quarter. If I look at sequentially Q-o-Q even then there is almost 3% improvement in your average realization while your product mix seems to be adverse given the way Passion has fallen off. So how should one look at it because I presume our spare parts sales would not have changed significantly from quarter-on-quarter or its driven by its spare part rate?
- Surender Chhabra:** Chirag as far as the product mix is concerned we are saying that our 125 cc product mix is better.
- Chirag Shah:** Sequentially also.
- Surender Chhabra:** Sequentially also and there is a marginal increase because of that in the ASP prices but major change is because of only that spare part sales, which I told that the growth of 30% from quarter to previous quarter.



Hero MotoCorp Limited
October 21, 2015

- Chirag Shah:** Fair point Sir and just a follow clarification. So you highlighted raw material benefits come with the lag of a quarter. So subsequent the following quarter would also see further raw material benefits given the way they have behaved?
- Ravi Sud:** As I stated earlier all benefits relating to upto quarter one have been captured in quarter two, i.e. there is not much reduction that we have seen. So there could be some marginal benefit in quarter three from the level where we are today.
- Chirag Shah:** Glamour shares the production line or the platform with Splendor and Passion or it is separate?
- Ravi Sud:** Glamour is 125 cc.
- Chirag Shah:** Fair point and one last thing is Maestro Edge you will pay royalty on Maestro Edge also right?
- Ravi Sud:** No Maestro Edge is totally developed by our own R&D along with our technology partners. So there is no royalty.
- Chirag Shah:** Which only on the old Maestro the existing Maestro which is there in the system?
- Ravi Sud:** Yes.
- Chirag Shah:** Thank you very much.
- 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. During the commencement of the year you had guided for operating margin at around 14%. During first half demand environment has been weaker than our expectations. So what are the variables apart from the material cost reduction has there been any other costs that is lower than what we had anticipated or are we planning to spend lower on marketing expenses going forward?
- Ravi Sud:** Let me answer your question in three or four ways. Number one I stated earlier our ad spend this year will probably within 2.1% to 2.2% versus 2.45% last year. Yes substantial amount of benefit has come in terms of commodity prices. Thirdly that LEAP program this is our cost management program continuously to be very, very strong apart from what we have achieved in the last few years even in the current year we should add about 75 basis points, which Mr. Chhabra also reiterated. Our fixed cost, we definitely control depending on the volume numbers and in the first half as you see the volume numbers have been subdued even compared to previous year so we have tried to manage our cost well and continue to do so.



*Hero MotoCorp Limited
October 21, 2015*

- Sreenath Krishnan:** On material costs, what you have seen in that further reduction from Q2 levels Q1 levels but you mentioned that going forward not much benefit will be seen incrementally. Why would been the case?
- Ravi Sud:** As I stated earlier in the previous question we work with the lag of one quarter. So whatever the benefits we have seen in quarter two they basically relate to quarter one. By quarter two what I stated was there is not much decline in the inputs. There could be some marginal decrease not very substantial going forward.
- Sreenath Krishnan:** Thank you.
- Moderator:** Thank you. The next question is from the line of Mahantesh Sabarad from SBICAP Securities Ltd. Please go ahead.
- Mahantesh Sabarad:** Thank you very much. Let me just stretch this question on the average selling price that we have seen has gone up substantially this quarter. We do understand from your explanations that some portion belongs to the spare parts in terms of the higher number of spare parts sales that you have done but at the same time from a mix perspective we are now going to see and my question relates to what is likely to happen in the oncoming quarters. We are likely to see newer products coming in forming substantial portion of your sales ahead, be it Maestro Edge, the Splendor Pro and so on so forth how will those prices move the needle in terms of the average selling prices going forward?
- Surender Chhabra:** As these are the 110 cc products and average selling prices in the range of I can say that Rs.40000. So the improvement is only because then the higher cc mix gets added to that kitty as a product mix. So we are saying one side the new variants which are coming in the motorcycle segment we are redefining the prices and apart from that major contribution of 125 cc.
- Mahantesh Sabarad:** But there again on the Glamour what is surprising to note is that you have done very well relative to the market competition. You were never great market shareholder in that segment. So how is that you managed such an improvement in the sales of Glamour?
- Ashok Bhasin:** Let me speak to our focus on driving better mix in 125 cc and the actions and success of Glamour. One of the things that we have been increasingly doing better is looking at state specific strategies and consumer segment wise strategies and the 125 cc opportunity is something that we have driven and that growth with the actions on the 125 cc is what we are guiding. In fact Glamour it is big fastest growing two wheeler brands in the country today than any brand from our competition. Our market share in the 125 cc segment is now close to 51% to 52%. That is a growth of 7%. So it is a combination of our marketing and local activation programs that we are driving, which is helping us grow in the 125 cc segments and as I said Glamour is the fastest growing two wheeler brand in the country today if you look at the first half performance.



Hero MotoCorp Limited
October 21, 2015

- Mahantesh Sabarad:** Since you mentioned state specific strategies are there any particular states driving this market share improvement for you?
- Ashok Bhasin:** There are parts of the country that are delivering stronger growths. So there are parts of east, parts of south and then there are selected parts of north where we are driving this program then we are getting results very stronger results and then we are extending to other markets as we go along.
- Mahantesh Sabarad:** How will you extend this market share expansion? Are the new variants of Glamour to be seen ahead in the next year?
- Ashok Bhasin:** Currently, I cannot speak to future product launches but what I am speaking to is the marketing programs can be local execution programs and activations and grass root activity combined with above the line media. Together all of that what is driving the market share expansion that I had just spoken about. Future launches which are not speak at this stage. We will share the details as and when they happen, but 125 cc segment will be an important part of our portfolio both for now and future.
- Mahantesh Sabarad:** Thank you for that but may I squeeze in one more question. We had a question on the ad spends where you guided that this year the ad spends will be lower relative to what was spend last year but then at the same time we are seeing ad rates actually going up is that something that you are also witnessing or you have been able to control the ad rates growth with the reduction in the volume of advertising?
- Ashok Bhasin:** Our total advertising spend, my colleague from Finance Mr. Chhabra has indicated the range from 2.1% to 2.2% for the full year and we are not going to achieve that I think at present. Quarterly yes variation we have already told will be there because during festival season we always have higher ad spends and also we have committed events activities which fall in that third quarter. Otherwise for the full year it's a balance between what the targets we are giving you.
- Mahantesh Sabarad:** That is definitely lower than what you did spend last year right. So my question was that in an environment where we add advertising rates itself going up how are you managing to control your ad spends. So is it indirectly in reducing the advertising volume.
- Ashok Bhasin:** As far as rates are concerned you see one cannot speak to specific rate. I would say that as a significant marketer we look at optimizing our reach and effectiveness of our marketing program through a combination of things including this strategic effect between different mediums. Other than that I cannot speak to any channel or vendor specific rate but what I would say is that we are constantly like in other areas optimizing our actions and effectiveness of our expansion program in marketing as well and that is delivering good results for us.



*Hero MotoCorp Limited
October 21, 2015*

- Mahantesh Sabarad:** Thanks for the great results. Thank you very much.
- Moderator:** Thank you. The next question is from the line of Chirag Shah from Edelweiss. Please go ahead.
- Chirag Shah:** Thanks for the opportunity. Just a query on your other income how should one look at this run rate? Is it kind of stabilizing or it can vary significantly for you?
- Ravi Sud:** The other income actually compares with the previous year, yes it is higher but from last quarter of the previous year there is add on because of Rajasthan incentives, which depends on the number of the two wheelers sold within that state of Rajasthan. So January'16 onwards, you will not see any major ups and downs in this as we had started claiming benefits from January'15.
- Chirag Shah:** Apart from that just interest income and the treasury income should not also be. Is it just stable number? There is no major variations expected going ahead?
- Ravi Sud:** As you know over a period of time, because of the dividend which we gave in 2011 and 2012 and also a lot of focus on R&D and new investments Neemrana, the global part center and the new technology center and the plant in Gujarat. Our treasury size has come down. So may be in the next two or three quarter you will start seeing some decline in the other income.
- Chirag Shah:** Just a clarification on model mix you highlighted. So traditionally we used to believe that Splendor and Passion are the most profitable products in the portfolio given their legacy. In terms of margin and the money that you make but looking at last one of the quarter results it does appear that the profitability of those two brands on a relatively basis have come down. Is it a correct assessment either the brands have moved up or the profitability this brands have come down?
- Surender Chhabra:** Chirag that is not the correct assessments. Splendor Passion yes, I agree have the highest selling products still and we are coming with the new variant even with Splendor Plus if you see we have come up with the self start also. So we are coming with the new variants. So I think our average margins intact and the market shares.
- Chirag Shah:** How much would be iSmart doing for you broadly?
- Ashok Bhasin:** iSmart is averaging between 30000 and 40000 per month.
- Chirag Shah:** Thank you very much.
- Moderator:** Thank you. The next question is from the line of Kaushal Maroo from Emkay Global. Please go ahead.



Hero MotoCorp Limited
October 21, 2015

Kaushal Maroo: Sir is the global part center fully operational now and hence the Q2 spare part revenue sustainable in the quarters ahead?

Surender Chhabra: The global part center we have started from January 2015 that was last quarter of the previous year and gradually they are picking up that efficiency there and within I think next two, three months it will be fully operational.

Kaushal Maroo: So is that one of the reason for the jump in spare part revenue that we have seen in this quarter?

Surender Chhabra: That is the major reason.

Kaushal Maroo: On your exports can you tell us how much is the share of Africa and Latin America in your total export?

Ravi Sud: For the first six months, our total numbers are about 105000, all I see I do not have the numbers with me relating to how much is the Africa and how much is Latin America but I also shared with you that as far as Columbia is concerned we are doing anything between in the last quarter we have done our volumes are varying between 2500 and 3000. This is the information I have as of now.

Kaushal Maroo: But it is fair to say that probably Sri Lanka, Bangladesh, Nepal is still about 70% of our export.

Ravi Sud: It would be about 60.

Kaushal Maroo: The last question on rural slowdown. Do you say that this slowdown could mean down trading for people from HF brand to the CT100 which has been priced lower?

Ashok Bhasin: Our experience of the last few months is that by focusing on new proposition of our superior offering under the HF portfolio and others, we have been able to fill in most markets despite the slow market sentiment, which is combined with the product offering valuable and advertising and the other programs that we are running in particularly in some of the key states of West and North.

Kaushal Maroo: Thank you.

Moderator: Thank you. The next question is from the line of Jinesh Gandhi from Motilal Oswal Securities Limited. Please go ahead.

Jinesh Gandhi: Sir, couple of questions first pertains to the LEAP program. Can you give what was the savings in first half?

Ravi Sud: Can you repeat it sorry I could not hear you?



Hero MotoCorp Limited
October 21, 2015

- Jinesh Gandhi:** Can you share savings from LEAP program in first half FY'16?
- Ravi Sud:** As you know on March 31 of each year whatever is the saving it gets nullified so we start from the New Year base. In the first six months our savings are to the tune of about 50 Crores. These are the incremental savings. As our targets of the year are about 200 Crores and we are well on track.
- Jinesh Gandhi:** Sir second question pertains to the capex for FY 2016 so we are on track for the guidance which you had given last quarter about 650 Crores?
- Ravi Sud:** Yes but I had given a guidance subject to the market conditions and since the market is subdued maybe some of capex may get delayed to FY 2017-18.
- Jinesh Gandhi:** One more question pertain to EBITDA margins you are indicating 15% for FY 2016 and considering first half averages close to 15.7% or so and there would be further benefit of LEAP program and commodity prices are we overtly conservative or we expect some cost push or pressure on pricing in second half?
- Ravi Sud:** As far as commodities are concerned capex if at all, so based on condition as of now the further benefit will only be marginal from what we have already stated. LEAP is definitely on track. Adv. spend in quarter three is generally high and we just balance out all the figures at this point, the guidance I am saying around 15% is in place.
- Jinesh Gandhi:** Thanks and all the best.
- Moderator:** Thank you. The next question is from the line of Joseph George from IIFL. Please go ahead.
- Joseph George:** Thank you. I have a couple of questions. One is right now as you highlighted we are seeing better growth in 125 cc compared to 100 cc. So I wanted to check you all on what your views are on this in the sense is this structural or do you think it got to do with the rural markets being weak. In other words if rural markets were to bounce back may be next year do you also expect a bounce back in 100 cc share of overall motorcycles?
- Ashok Bhasin:** This is Ashok. I would say it is a combination of two things. One because of the softer sentiment of rural the offtake in the lower part of the market of 100 cc is definitely getting partly impacted and second I do believe that there is a set of consumers who are either entering or upgrading directly to the 125 cc segment. So I expect that trend to continue as well in the motorcycle segments but as the rural market picks up, I expect the 100 cc to improve but the 125 cc by itself I think is the trend that will continue.



Hero MotoCorp Limited
October 21, 2015

Joseph George: My second question was just wanted a confirmation, the Haridwar benefits and in March 2018 right is that right?

Ravi Sud: Definitely that is correct.

Joseph George: Thank you.

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

Ambrish Mishra: Thanks for the opportunity. Sir I had two questions. One, on capacity, can you share the capacity plans over next 18 to 24 months and how they are going to come out and second was, with respect to network. I mean how do you see and what is the kind of room that we have as far as the domestic network expansion goes?

Ravi Sud: As of now our capacity is about 8.1 million and the Gujarat plant at Halol, which is under construction as of now, our plan was to start with the capacity of 1.2 million but in the first phase now we starting with a capacity of about 755000 because we will increase capacity depending on the demand situation in the industry in the current year as well in the assessment of next two years. So which means may be in the second quarter of FY 2017-18, Halol to add another 750,000 so we will have a capacity of some 8.8 million and the second phase of Gujarat, which takes the capacity from 750,000 to 1.2 million, which might happen by end of FY 2017. So that will take the capacity to over 9.2 million and then the final phase of the capacity of Gujarat will be 1.8 million. This should happen some time in FY 2018 beginning and after we already have the time for 6th plant entirely on the market condition.

mbrish Mishra: So the last 600,000 last phase of Gujarat should come in FY 2018 you are saying.

Ravi Sud: Either FY 2017 end or FY 2018.

Ambrish Mishra: Sir on network what was the second question given the fact that we have been fairly penetrated how much room do you still see on the network side which can help us grow? What are our plans on that?

Ashok Bhasin: I would say like you summarized we are quite well penetrated and well represented and distributed around the country with our 6000 plus network points. The scope for the future I would say that we continue to review this on a regular basis both at a national and at state level and as and when the opportunities come and also obviously we keep review what is the kind of growth that is getting delivered through the system and based on that as and when appropriate we have more network points but I would say currently we are quite well to distributed and wherever there are specific cases or



Hero MotoCorp Limited
October 21, 2015

need so we do fact. The most important thing is if you commensurate with the growth what we are seeing and throughput that we are delivering and fundamentally because we are well distributed and well present in a strong way around the country, I think we are in a good position to exploit demand improvement.

Ambrish Mishra: On the capex can you just remind us what would be the capex in rupee term over next two to three years?

Ravi Sud: In the earlier calls, I remember in quarter four earning calls of previous year as well as in the previous quarter's call I have stated that we have earmarked about 3000 Crores of capex in FY 2016 and FY 2017, but looking at the market condition, I think it may defer to the FY 2018 also because the capacity creation in Gujarat which will go from 1.2 million to 1.8 million may spillover to FY 2018.

Ambrish Mishra: So Rs.30 billion over three years?

Ravi Sud: Yes.

Ambrish Mishra: Thank you so much. All the best.

Moderator: Thank you. The next question is from the line of Promod Amte from CIMB Securities. Please go ahead.

Promod Amte: Congrats for good set of numbers. Two set of questions. One, this with regard to your new vehicle and new engine experience, what is the type of amount you have spent on purely on the engine side and the vehicle development side one. Second, how this experience in terms of timeline and costing been versus if you have done through over the other JV?

Surender Chhabra: Promod, I am Chhabra here. As far as engine is concerned it is an in-house development with the help of our partners. We had taken services from that engineering unit for that exterior design only. So the exterior designing, yes we have paid something to E&E Italy.

Promod Amte: Okay but what is the usual development cost for you now versus what you might have spend?

Surender Chhabra: Promod let me answer your question this way. I am sure you have some idea about the amount of development cost which we are paying to Honda and the cost that we are paying to our technology partners are much lower that is the only thing I can say. They are much lower.

Promod Amte: You will be usually amortizing them and with the engine be a commerce for?

Surender Chhabra: Our cost remains same as of now.



Hero MotoCorp Limited
October 21, 2015

Promod Amte: Your engine common for both motorcycles and the scooters together. 110 cc engine which are developed so it will be a common for scooters and motorcycles and hence can we amortize?

Surender Chhabra: Not at all. It is not.

Promod Amte: Second is the question to Ashok. I do not know whether it is a right platform since you come from a completely FMCG background with a global experience how do you see Indian two wheeler matured industry and where do you see looking at Hero's leadership position for you to play a role of improving your demand profile substantially or improving the market share profile for Hero in a short term and medium term?

Ashok Bhasin: Thank you for the question. I think the opportunity both for two wheelers and Hero. I see it has synonymous with each other because Hero actually has shaped the two wheeler industry in the past. It is in a dominant position today and I think Hero will. I have the opportunity and I am quite confident we will lead the future as well. The penetration levels today offer immense opportunity both in urban and in rural and I also believe that as the consumer evolve there is opportunity to drive superior solutions not only on products but on service and customer experience. So I think those more evolved ways of marketing, designing, delivering to the consumer is the opportunity in the two wheeler sales and I believe that my global experience of building strong brands and business models will help me in contributing to that. So that Hero stays right ahead and actually continues to lead the way in every area not just in some geography and not in some product segment. So I am quite confident that we will get there.

Promod Amte: Thanks and all the best.

Moderator: We have next question from the line of Hitesh Goel from Kotak Securities. Please go ahead.

Hitesh Goel: Thanks for taking my question. Just on Maestro Edge basically will it replace your existing Maestro over a period of time?

Ashok Bhasin: We have no plans to replace. We have also shared this during the unveiling. Maestro will continue and Maestro come and take the Maestro equity forward with another differentiated offering under the Maestro umbrella.

Hitesh Goel: Can you give targets for export basically in FY 2016 what is the kind of volumes you are looking at?

Ravi Sud: As you know last year we have done about 200000, this year we are looking at about 250000 and in the last earning call I have stated three market which we are trying to enter before the year is over are



*Hero MotoCorp Limited
October 21, 2015*

Nigeria, Argentina and Mexico, because these are three large markets put together they are more than 2 million.

Hitesh Goel: Thank you.

Moderator: Thank you. Ladies and gentlemen due to time constraint that was the last question. I would now like to hand over the floor back to Sonal Gupta for his closing comments. Over to you Sir!

Sonal Gupta: Thanks everyone for joining the call. I would like to thank the senior management team from Hero for giving us this opportunity and for taking all the questions very patiently. I will now pass it over to Umang for his closing comment.

Umang Khurana: Thank you everyone for joining in. Thank you Sonal, UBS for organizing the call. I look forward to keeping in touch and for any further questions that you may have please get in touch. Thanks so much.

Moderator: Thank you very much Sir. Ladies and gentlemen on behalf of UBS Securities that concludes this conference call. Thank you for joining us. You may now disconnect your line.