



“Hero MotoCorp Q2 FY17 Conference Call”

October 27, 2016



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MODERATOR: **MR. NISHANT VASS – ICICI SECURITIES LTD.**



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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Hero MotoCorp Q2 FY17 Conference Call hosted by ICICI Securities Limited. 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nishant Vass from ICICI Securities Limited. Thank you and over to you, sir.

Nishant Vass: Thank you, Raymond. Good afternoon, everyone. On behalf of ICICI Securities, we would like to thank the management of Hero MotoCorp for providing us the opportunity to host this call. I would now like to hand it over to Umang to take it forward. Over to you, sir.

Umang Khurana: Thank you for the opportunity, Nishant. We welcome all of you on the call to discuss the financial results for Q2 2017. With us today on the call are Mr. Sud who is the Senior VP and Chief Financial Officer; Mr. Ashok Bhasin – Head of Sales, Marketing & Customer Care; Mr. Surender Chhabra – Vice President, Corporate Finance.

Since we released our results last evening, we are happy to take the questions. Raymond, could we begin with the first set of questions please.

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

Jay Kale: Sir, my first question was regarding your rural and volume outlook. Could you throw some light on how the festive season has panned out till now and has it been on par with expectation to the extent of billing done? And what would be your full year volume guidance since we are now into H2FY17?

And my second question would be on your gross margins. We see a sharp improvement on the sequential basis, if you could just kind of quantify what would be attributable to commodities and what would be attributable to the LEAP benefits?

Ravi Sud: I will answer your second question first. You see, yes there is improvement in the gross margin in the quarter two compared to quarter one and also corresponding quarter. There are basically two reasons, one is that commodities till quarter two have been soft and as I have stated earlier we take the benefit or the impact of commodities after laps of one quarter. But we find that in quarter two onwards the prices have started moving up, so we will see some impact, inevitable impact coming quarter three onwards. As far as LEAP savings are concerned, in the first six months accruals which have gone into the financials are Rs. 103 crores which works out to about 1.3% - 1.4% point of EBITDA. For the first question, may I ask Ashok to respond.

Ashok Bhasin: Thank you, Mr. Sud. On the festive season, as we all know it is currently under way and some of the significant part of the festive season is actually right ahead of us with Dhanteras, Diwali,



Gudi Padwa, etc. The season has started on a positive note, it is little bit of soft positive start in some markets because of some untimely rains, etc, but we are in the positive trajectory and we anticipate that the next few days will be better and that should give you a positive growth in the festive period. As far as the full year is concerned, we expect to be close to double-digits growth as the market picks up in festive in the next two quarters.

Jay Kale: And just one more question, if you can just quantify your ad expenses to sales in this quarter and how should your other expenses move? I believe it should increase going forward but if you can just quantify what would be your ad expenses to sales in this quarter?

Surender Chhabra: As for the expenses comes for the publicity, normally the expense comes in the third quarter during festival periods, but in the first half I will say overall it is within limits, a little bit less than the budgeted 2.2%.

Jay Kale: 2.2% for the first half you are saying?

Surender Chhabra: First half, yes. That is right. And if you recall, last year for the full year the ad spend was about 2.5%. So, as it is in the quarter three the chunk of expenditure gets booked.

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

Kapil Singh: Could you give us a sense of what has been the festive retail growth till date?

Ravi Sud: Well, as Ashok said, yes this is a positive reason and we expect the retail to be in the double-digit in next four to five days when the 31 days of the festival season.

Kapil Singh: And secondly, I wanted to check on Pantnagar, what is the production target for this year and would it increase further or it would remain flat going ahead?

Umang Khurana: Kapil, you want to talk about Haridwar?

Kapil Singh: Sorry, my apologies, Haridwar.

Surender Chhabra: Kapil, Haridwar contribution is 35% in H1 and it depends on how the market grows and how the production takes place, then accordingly proportionate contribute comes from that plant.

Kapil Singh: Sir, what I was trying to get at is, what is the maximum production possible there, is there scope to increase it further or we are at peak?

Ravi Sud: Well, we can produce up to 9,000 two wheelers a day. And as of now we are producing about **26,000** per day. 9,000 can to up to 9,500, but as of now we are not going beyond 9,000.



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- Kapil Singh:** Sorry, I did not catch that?
- Ravi Sud:** About 9,000.
- Kapil Singh:** Currently we are at 9,000, so you are saying 9,000 can go to 9,500?
- Ravi Sud:** Yes.
- Kapil Singh:** And sir, last question. We expect some increase coming on account of emission cost, so do we expect new emission norms compliant models to get launched in second half or they will come towards the last quarter only? And do you expect to pass on those costs fully?
- Ravi Sud:** Kapil, two or three parts to it. Number one, the cost of new emission norms, it is not very significant, it is very, very minor, I think in the range of between Rs. 250 to Rs. 350. Number two, as the government has said that effective 1st April, 2017, all vehicles have to be compliant. We will start rolling out these models starting from quarter four.
- Kapil Singh:** And you hope to take a price hike to cover up that cost?
- Ravi Sud:** We will take a call at appropriate time.
- Kapil Singh:** Okay, thank you. And wish everyone in the management a Very Happy Diwali.
- Moderator:** Thank you. Our next question is from the line of Hitesh Goel from Kotak Securities. Please go ahead.
- Hitesh Goel:** Sir, can you give us some sense on the urban and rural demand during the festive season, if you can give some color, especially in markets where you are strong like UP, Bihar, Rajasthan, MP, are the sales as per expectation in those markets?
- Ashok Bhasin:** As I said, the festive season has begun on a positive note, urban is positive and rural is also picking up slowly because in some markets there have been some untimely rains and also some of the realizations for the farmers on crop etc has not yet materialized and all of that has an impact. And I have also said on the previous quarter call that rural sentiments will progress slowly and it will take two to four quarters for it to have a full impact of a positive monsoon. But things are at a positive trajectory.
- Hitesh Goel:** And sir, my second question is, are we seeing any major increase in incentive proportion in the festive season from the competitor in some way?
- Ashok Bhasin:** I think all players will do their best possible activities in the festive period, I cannot speak to any degree of intensity. We have adequate programs in place both in terms of stock planning, stock availability, staff training, customer engagement and then of course advertising and other



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elements. But for us it is a 360 degree approach which is to make sure that the customer experience is at a higher level as the traffic goes up in this period. And then obviously it is being supported with appropriate levels of demand generation activities and advertising and other programs around the country.

Moderator: Thank you. Our next question is from the line of Ashish Nigam from Axis Capital. Please go ahead.

Ashish Nigam: I had a couple of questions, firstly on margins. Just to clarify, there has been no impact from commodity prices this quarter and that is expected only next quarter, is that how to see it?

Ravi Sud: Sorry, come again.

Ashish Nigam: Just on the impact from commodity prices, has there been an impact this quarter? You mentioned that there is a bigger impact coming next quarter, so has there been any impact this quarter?

Ravi Sud: No, negligible.

Ashish Nigam: And just slightly more longer-term one, thoughts on this when the ABS and CBS implementation comes up, I believe April 2018 onwards, what is the estimated price hike you see or the cost pressures you see on account of that?

Ravi Sud: We had shared these figures, I think this could be anything between Rs. 3,500 to Rs. 5,000 per bike depending on the type of this thing. And that is what it takes as of now.

Ashish Nigam: So Rs. 3,500 to Rs. 5,000 for ABS and CBS, because we thought CBS would be a little lower and ABS would be the more expensive one?

Ashok Bhasin: ABS would be the more expensive one at the higher end of the indication that Mr. Sud has given.

Ashish Nigam: So, CBS could be somewhere Rs. 3,500 upwards?

Ashok Bhasin: ABS will be the higher one and CBS would be lower, and more exact numbers will be as we launch this appropriate pricing decision to be made at that time.

Ashish Nigam: Just lastly, wanted your thoughts on exports, any target markets you can talk about and when do you expect to hit that 1 million mark that you all had set out for earlier?

Ravi Sud: Well, we are getting this question every call and my answer is going to be same. All of know all export markets are facing very, very strong headwinds, particularly the large markets in Africa and in LATAM. We know the large countries like Nigeria, Congo, Egypt are under tremendous pressure. Similarly, large markets in LATAM like Columbia, Argentina are also not doing well. So, we had a plan of 1 million by 2019, but as I stated earlier this is under consideration and we



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are working on revised strategy as to how we see it and what would be the realistic plan which we want to share. I think as and when it is ready I think we will come back to you. But as of now the exports really is not clocking which we used to a couple of years back.

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

Karthik Chellapa: At the outset, I wish the team a Very Happy Diwali. Sir, my question is essentially on scooters. If I look at our volumes in an absolute sense, it peaked almost in the fourth quarter of last year and ever since then it has actually been trending down and so has our market share. So how should we think about scooter market share going forward? And corollary to that, it has been almost a year since we launched our two models, Edge and Duet, any feedback you have on how you think the products have actually performed? And specifically on Duet, it is a unisex scooter with metal body, so it was targeting a segment that we were not present before, but how is it that even after one year of launch it has not been able to get the same level of traction as Jupiter? Thank you.

Ashok Bhasin: Thank you for your comment and question. Speaking of scooters, I think the headline is that the industry in the first half had grown at 26% and Hero Scooter has grown at a much higher pace, almost double of that. Secondly, our retail market share currently would be running closer to 16% - 17% which is a significant improvement of about 12% where we were just before the launch of these scooters. Continuing on that positive momentum, we expect that in the second half of the year we would further improve the scooter performance on the back of these two models that we would refer to in our entire scooter portfolio. So, we are on a positive trajectory, market share gains are significant, market throughout is much lower and Hero is outperforming in terms of both. And our retail performance is even better. When you look at last year, a lot of that was also the first find retail and distribution network, so some of the dispatch numbers when you look at on a short horizon month-on-month will not be perfectly comparable, but I would just say that on a long-term basis we are growing faster than the market and we will continue that momentum to gain growth and gain market share.

Karthik Chellapa: And sir, are there any white spaces in the scooter market that you are currently not catering to? And are you in a position to talk about any new models that you will be launching in the near term to address that?

Ashok Bhasin: Taking the second one first, our guidance earlier was that we will come with several new models in the balance part of this year, we have seen a few of them getting done just on the eve of festive in motorcycles. And I would say the balance part of the year we will see both scooter and motorcycle, we will speak to the at the time of the launch. And regarding white spaces, geographically the white space for the scooter category is the lower order towns and rural. Given the strength of Hero with its network of sales and service, as we develop our scooter franchise, that will get tapped better because we are the best distributed with a best service network in



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build, gas and quality and that will obviously show over the next few quarters in terms of reaching those consumers and servicing them better.

Karthik Chellapa: And sir, just to make sure I heard you correctly. So in earlier question you had mentioned that retail sales in the festive season till now has been double-digits and for rural there has been some delay in cash flow in some pockets on account of the good monsoon, so you expect that demand to come through in third quarter, did I hear that right?

Ashok Bhasin: No, you didn't. What I stated was that festival season started quite soft, it has picked up. And in the next four, five days we expect to have a double-digit by the end of the season. I mean, say another five, six days, that is what I said.

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

Amin Pirani: Sir, my first question would be on the level of dealer inventory. So, given the billing and the retail trends that you are expecting over the next few days, what is the normalized level of inventory that you are expecting post festive and how would it compare it to similar period in the previous years?

Ashok Bhasin: I am not fully clear when you refer to it as normalized, what normalized means in your definition. But let me speak to our stock levels. This year like every other year I think we have done very good stock planning, like I said in the beginning to ensure that there is good availability of our vast range across our vast network of more than 6,000 network point. Obviously, the inventory levels are higher than what we normally carry, but we expect that post the festive period this would come down again to normal levels and we are mostly at a level of somewhere between five to six weeks of inventory.

Amin Pirani: And this would be similar to what you have experienced in the previous year as well?

Ashok Bhasin: This would be similar.

Amin Pirani: And sir just an update on what is the progress on the new plant in Gujarat, by when do you expect it to come on-stream? And what is the CAPEX plan for this year and probably next year?

Ravi Sud: The first question on Gujarat, the plant construction has been completed, we have already started trial production, a small number of 75 - 100 per day. And we should be commissioning the plant sometime in the third quarter. And as far as CAPEX is concerned, in the last earnings call as well as in the fourth quarter earnings call we have stated that FY17 CAPEX will be in the range of Rs. 1,100 crores to Rs. 1,300 crores, and that figure stands even today.

Amin Pirani: And sir, does this include things like the investment that you have announced today or this is like pure capacity?



- Ravi Sud:** No, Rs. 1,100 crores to Rs. 1,300 crores were basically for capacity and increase in capacity as well as investment in existing plants for modernization and certain investments in IT.
- Amin Pirani:** But R&D would be separate or would be part of it, any expenditure that is on R&D?
- Ravi Sud:** R&D, as far as CAPEX is concerned most of it will come in the last fiscal and the figure of Rs. 1,100 crores to Rs. 1,300 crores includes residual of about Rs. 100 crores to Rs. 250 crores which will be part of this Rs. 1,100 crores to Rs. 1,300 crores.
- Amin Pirani:** And sir, would it be fair to say that once the Gujarat plant is commissioned this year, from next year this CAPEX level should come down significantly or do you think it would be maintained this year?
- Ravi Sud:** As far as next year is concerned, let's see the capacity what are likely to have. We have capacity of 8.2 million now, with Gujarat plant coming in we will have another 750,000, so which will be close to 9 million capacity. Depending on the market conditions and the growth in the industry, I think the next phase of investment in Halol will happen. So, my whole assessment at this point of time would be that next year CAPEX should be in the range of Rs. 700 crores to Rs. 900 crores.
- Moderator:** Thank you. Our next question is from the line of Yogesh Agarwal from HSBC. Please go ahead.
- Yogesh Agarwal:** I have two questions on the executive segment, largely this Splendor and Passion. Do you see that the competition today in the executive segment has come down versus the past few years and you are in a much better competitive situation today? And secondly, over the next couple of years as 7th Pay Commission and rural recovery picks pace, executive segment can actually grow in-line or faster than the overall motorcycle market?
- Ashok Bhasin:** Competition continues in the executive segment which is the 100cc which you are alluding to. It is just that Hero continues to lead, actually dominate that segment, our average share in 100cc is 68% in the entry and about 76% in the Deluxe segment and very, very positive market share and we continue that progression. As far as the 7th Pay Commission, rural sectors are concerned, clearly as they pan out I think they positively contribute to the entry and the executive segment. But we have to look at the total market growth, not just by any particular model or segment but the whole market. Some consumers would typically usually enter executive level will now enter 125cc levels. And if you see Hero has a very strong growth, we have very, very sound growth in Glamour model, we have market share now close to 59% and Glamour has been the single largest sell in 125cc for several months now continuously. All these factors you see there is consumer shift happening, some people will end up with 125cc, some will upgrade to a 125cc and yet there will be first time buyers, new buyers who will come. So, all of this will pan out on a positive note over the next few quarters.



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- Moderator:** Thank you. Our next question is from the line of Jinesh Gandhi of Motilal Oswal Securities. Please go ahead.
- Jinesh Gandhi:** My question pertains to the cost pressure which you are indicating on the commodity side, any sense about current commodity prices, what could impact six to nine months down the line?
- Ravi Sud:** Well, you see last three four quarters we have been saying that the commodities are at the bottom and cycle has started reversing. But to say that the commodity will come to the same peak in next two quarters or three quarters will not be correct, but only thing at this point of time what one is saying is that the cycle has started working, particularly in the areas like steel. Steel we will see some increase, we had seen some increase which we will pass on to the vendors. Aluminum, not much; rubber, plastic yes, some impact are coming. I would say that impact for bikes would be in quarter three anything between Rs. 250 to Rs. 300.
- Jinesh Gandhi:** And could that be offset by our LEAP program from here on?
- Ravi Sud:** Well, as I said LEAP has already added Rs. 103 crores in the first six months and our target for the financial year is about Rs. 275 crores and we are well on track.
- Jinesh Gandhi:** So, effectively that would be offsetting of that, okay. And sir second question pertains to our product pipeline on motorcycle side. Now since we have launched 150cc product, what should we expect going forward in next 12 months?
- Ashok Bhasin:** So, with the 150cc launch I think in the 150cc and above segment will obviously start improving. And to the future products we will share details with you as and when they get launched, I think the first step is to roll the model that we have just kicked off successfully in the market place and certainly there will be more to come in both segments because we are underrepresented in that part of the market today and there is work going on across segments including that kind of market where we need to improve our presence.
- Jinesh Gandhi:** And sir last question pertains to your investment which you have done in Ather Technologies, does it indicate it is a precursor to our two-wheeler scooter launch somewhere in near future, somewhere in next one year or so?
- Umang Khurana:** So we have Rajat Bhargav here, he leads strategy for the company, he will take the question. Could you repeat the question for him please?
- Jinesh Gandhi:** Yes, so my question pertains to Ather Technology which we took strategic stake which we announced today. Does it indicate as a precursor to our electric scooter launch somewhere in next 12 to 18 months?
- Rajat Bhargav:** As a company we are committed to promoting two wheeler electric vehicle industry in the country. We have our own electric vehicle program going on within the company. In addition,



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we as a strategy also want to tap into the external innovation ecosystem startup in adjacent area and that is where we have invested and taken up the stake in Ather technology. So, going forward we see both these two programs going on in parallel and in times to come both these programs should help in propelling the electric vehicle industry in the country.

Jinesh Gandhi: But in terms of how soon can we expect that because it would be a significant advantage for us?

Rajat Bhargav: So, I think Ather Energy folks are working on the product. They have taken the product to a proto stage, they have to subject the products to rigorous testing and then launch it. So I think it would be fair for Ather to comment on the exact timeline. But they have already taken to a product stage and I think they intent to launch it as quickly as they can practice.

Jinesh Gandhi: And our product, I believe LEAF is something which we are working on?

Rajat Bhargav: So we had shown the proto of our electric vehicle at the auto expo, it was called Duet-E and even our internal teams are working on that particular program. And I think in due course even that product would be launched in the market.

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

Chirag Shah: Sir, two questions. First on the normal inventory, post festive you have highlighted four to five weeks of normal inventory, is it right understanding? Or when you highlighted four to five weeks of inventory that is the average inventory levels?

Ravi Sud: Chirag, let me just clarify. You see, inventory at the peak of the festival season which is now is in the range of six to seven, seven and a half weeks. And as you know Dhanteras is a major day which is tomorrow where a large chunk of the inventory will get depleted. So, end of the festival season, so 1st of November or 2nd of November the inventory should be at about five to five and a half weeks.

Chirag Shah: I thought that the level would be far lower, less than a month.

Ravi Sud: No, let me tell you our inventory norms about five years back used to be three to four weeks, now because of the increase in number of touch points which have crossed 6,500, our norms are now about anything between five to five and a half weeks.

Chirag Shah: So per dealer or per touch point inventory level has not really shot up?

Ravi Sud: Yes.

Chirag Shah: This was really helpful. Sir, second question was on raw material, I was just looking at raw material per vehicle, they have actually trended down on a QonQ basis also despite our ASPs



going up. So, is it because we have taken price hikes or is it because of spare parts revenue is far higher, if you can share some light?

Ravi Sud: As far as per motorcycle average raw material cost is there, we have told that the price has a lag effect of one quarter, the increase which we are saying will come in effect of in the second quarter and third quarter marginally and then subsequently. So the first two quarters, if I say comparatively quarter-to-quarter prices are down, no doubt. One side is that ASP price, second some price corrections on the motorcycle front, two-wheeler front has been taken in both the quarters. So you will not see major up and down in the pricing and we average the motorcycle prices.

Chirag Shah: Yes, but on average could we have taken a 50 bps price increase on an average?

Ravi Sud: No, it is hardly netted on that sales value, Rs. 200 to Rs. 300.

Chirag Shah: This is for us, not for customer, right?

Ravi Sud: This is for us, yes.

Chirag Shah: Because this was very surprising that your RM cost per vehicle is down on a sequential basis also. Sir, second question was on this discounting, somebody has asked the question. When we peak at ground level we hear subventions and all inclusive on an average Rs. 2,000 to Rs. 2,500 discounts on many products. Is it a normal marketing technique every festive season or is it slightly higher this time given the initial softness? And this is industry wide we are hearing, it is not necessary for one particular company.

Ashok Bhasin: I have been speaking to the industry, as you cover the market I will let the interpretation stay with you. Definitely during festive period, apart from launches, advertising some promotional support programs are launched by all players, everybody follows adjacent to most of the program. But Hero's strategy has never been to discount, so we actually focus on the customer experience and then of course given appropriate support as required to help the customer chose their decision making process. But every company follows a different strategy. We certainly do not follow the strategy off the festive season or during the festive season.

Chirag Shah: But we would be providing subventions, right?

Ashok Bhasin: We do provide support to some segments in some models in some markets and that is a part of normal program that we run during such period.

Chirag Shah: And if you can just share some highlight on the conversion cost, you explained the commodity side very well, but are conversion costs also going up or the pressure is not yet visible in the system?



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- Ravi Sud:** Chirag, what is the meaning of the conversion cost?
- Chirag Shah:** So, one is pure commodity cost increases and then a normal vendor high that you will have to give for the cost inflation that we see across various be it staff, be it administrative, be it civil, be it transportation, so and so forth.
- Ravi Sud:** You see, as far as the fuel is concerned, the transportation costs are concerned, diesel prices are marginally upwards so ultimately that only by the incoming in-house consumption as well as outbound as a stream, marginal cost increase is there. As far as labor is concerned, no major change has come in the minimum labor prices from last quarter. So, only I think the diesel price volatility I think this is coming up upward-downward affecting the conversion cost.
- Chirag Shah:** And if I can just squeeze in last question, can you just tell what were the spare part revenues for the quarter and also what was it in Q1?
- Surender Chhabra:** Spare part revenue is slightly better than Q1, no doubt.
- Chirag Shah:** But would it be possible to quantify, maybe the percentage of sales or a vivid number, if you can? Because it tends to be very volatile, I presume Q1, Q4 would be better quarter or weak quarter on spare parts and Q2, Q3 would be far better quarters from spare part revenue perspective?
- Ravi Sud:** It is better by 8% on quarter-to-quarter.
- Moderator:** Thank you. Our next question is from the line of Ashutosh Tiwari from Equirus. Please go ahead.
- Ashutosh Tiwari:** Sir, our other income is quite high in current quarter, what is the reason and what kind of other income can sustainable income we foresee.
- Ravi Sud:** It is really mark-to-market, nothing else. Because of the new accounting standards IndAS we have got to mark all our investment, we have to do that mark-to-market, this is because of that.
- Ashutosh Tiwari:** On a sustainable basis how much you can do quarter?
- Ravi Sud:** In the current circumstances it is impossible to predict. Because earlier we had a flexibility, it used to be in our hand to see how much we want to book, now it is mark-to-market, I mean it all depends how the investments are doing and all our investments are in debt instruments where we have no equity. So depending on the markets session and the interstate movements I think that investment will keep on performing. And whatever is mark-to-market that is what we are doing as planned.



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Ashutosh Tiwari: Sir, I am saying that in certain states we have the scheme of discount to government employees and we have services schemes also. So, how this is borne by the company and the dealers basically?

Ashok Bhasin: We have collaborative programs between us and others in the value chain, I cannot speak the specific details of each program but all our support programs are collaborative in nature. And as appropriate for each program we specify those actions.

Ashutosh Tiwari: But is it a mix of, basically mix of this discount borne by dealer and the company?

Ashok Bhasin: As I said it is a collaborative effort and I cannot speak whole detail on it.

Moderator: Thank you. Our next question is from the line of Basudev Banarjee from Antique Finance. Please go ahead.

Basudev Banarjee: So, most of my questions have been asked previously but just again. If I see your market share in the motorcycle space, it is almost at a three year low at 48%, so if you can highlight what is happening, why you are losing out market share? Though the mix of the market has been trending on the upside but your Splendor, Passion volume on an absolute basis has also been remaining static whereas your Deluxe and Glamour have been doing well. So, as a result overall market share is gradually trending on the downtrend. So if you can highlight on that aspect.

Ashok Bhasin: Our market share picture as of now will be 49% thereabout and our retail will be probably even slightly better. So we are pretty much with our average market share, close to our average market share of 50%. Splendor and Passion actually are both in the Deluxe segment, that segment like somebody has also talked about that that segment has not been growing unlike some other parts of the market. And of course there is a part of the market which is the 150cc and above where Hero has not been represented very significantly. So as that picks up our market presence and market share both improve. Currently in the 125cc segment we have made very sharp gains, we are, as I said Glamour is growing at 30% plus, it is one of the fastest growing motorcycle brands in the country, it is India's largest selling 125cc at number one, hence the market share in that segment has gone up.

Basudev Banarjee: And sir one more thing, when you said your scooter retail share is close to 16% plus, which means 200 bps higher than the wholesale market share. So when your wholesale market share was close to 20%, what would have been the retail share then?

Ashok Bhasin: Are you talking about the launch period?

Basudev Banarjee: No, just trying to understand that you have lose your wholesale scooter market share from 20% levels to 14% levels, 600 bps over last 10 months since Maestro Edge and Duet got launched, both the models. So, you said that your retail share is 200 bps higher than the wholesale share as of now. So just trying to understand that what has been the decline in retail share from its top?



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Ashok Bhasin: I think the key thing is to look at the two milestones, one is wherever the market share turns before the launch of the new scooters and we were trending at about 12% market share at that point. And as the new products came up, the dispatch share obviously went up close to 19%, 20% because that was the first build as I said. The current period it is not comparable to that because now you are on a more stable state in terms of the distribution, of course the volumes, retail uptake and market shares are improving. So the real thing is that we were at about 12%, we are now at about 15% - 16% and that is a positive gain. I would not pick up those short period dispatch numbers because that was the first build of totally new models, both Maestro Edge and Duet were completely new.

Basudev Banarjee: So sir, in a nutshell your market share used to be around 12% - 14% and it is still there around 14% odd, in between just because of initial distribution of the new launches it spiked up.

Ashok Bhasin: It is not just only distribution, market share has picked up, our market share was 12% on an average before the launch of the new models and it is now closer to 15%. So that is a positive gain in market share. I will take you, there is more action coming on, scooters will be coming, quarters as well and the simple parameter that you have to see is that the market is growing in the first half at 28% odd and we are growing at 47% odd, so we are outgrowing the market by almost 2:1. And we also have to look at the long-term over the next two to three quarters on this trajectory and not just at the current quarter two because in the scooter market we are not yet a dominant player, so we will have to take a more reasonable long-term view on this.

Basudev Banarjee: And last question sir, how to look at November month volume this time, because this year already your inventory for the dealer for festive season started from August, a bit ahead compared to last year. So, that impacts your November wholesale or you expect a good festive wholesale to continue in November also?

Ashok Bhasin: I think for sure I cannot speak to specific numbers of November, my entire organization's focus is on the next seven to 10 days as I do very well in the festive, then we will pick it up from there, I think the two numbers will not be comparable because of Diwali and festive season. Our focus is on customer experience and execution and picking up retail in the next 10 to 15 days, the 10 days really are the festive season is appropriate.

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

Sonal Gupta: I just wanted to understand in terms of the discounting and incentive, accounting and stats. So, while we may have dispatched the volumes last quarter or in wholesale terms, I mean the impact of that or any incentive that we are giving in the festive period will be accounted for in Q3, is that correct?

Surender Chhabra: Sonal, as far as accounting is concerned it is an accrual policy, it is not that whenever you sell the vehicles in the market or if there is any discount offer, that will be accounted at that point of



time and within that period itself. So festival period is going on, some discounts and offerings are there so this will be accounted in the third quarter itself.

Sonal Gupta: And just, what is your maintenance CAPEX like, just to get a sense?

Ravi Sud: Maintenance CAPEX for existing plants?

Sonal Gupta: Yes, sir.

Ravi Sud: We spend anything between Rs. 250 crores to Rs. 350 crores every year.

Sonal Gupta: And would it be possible to give some indication as a percentage of sales how much is steel of your cost?

Ravi Sud: Steel is 64 kg in a bike, if the total bike is 110 kg then steel will be 64 kg, aluminum is 24 kg.

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

Pramod Amte: First question is with regard to the Ather Energy which you acquired, what it brings on table versus your work which you are already doing? Why you are to pay such a premium for this entity?

Rajat Bhargav: A startup like Ather looks at electric vehicles in a completely different approach compared to the incumbent OEMs like us. For example, they start and they look at it more as a technology and the latest trend is in electric and so on. Now, we as OEM we have been obviously in this industry for a long, long time, platforming commonality and how to build reliable good products integrating technology, that is our approach. So I think the reason why we invested in Ather is to have not just one but two different ways of building this industry at a time when this industry is quite nascent and ready to take off if some of the leaders were put their efforts, I mean if a leader would support a startup like Ather. So, I think that was our philosophy of investing in Ather.

Pramod Amte: You plan to hold currently 30%, is there any intention to become a majority shareholder or incrementally capital allocation towards the same?

Rajat Bhargav: So, I think right now the most important thing is to make sure that the startup culture, the entrepreneurial passion, the independence is maintained. The reason we invested in them was exactly for this reason. So I think that is what our immediate focus is and by making sure of that and by supporting them we want to make sure that this scales up as a success. Of course, we have a significant economic incentive in the company, the better this company does the better it would be for us and for our shareholders.



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Pramod Amte: And second question is with regards to the incentives in the market place, this is to Mr. Bhasin. Sir, can you help us understand separately for scooters versus the motorcycles, how are the incentive trends this festival because scooters are first time entering such aggression compared to historical trends and similarly the stockings for both these products for the industry.

Ashok Bhasin: I think if you take a broad scan of the market without sticking to any specific competitor, there is different program for both motorcycles and scooters, I would not say that it is less in scooters or more in scooters and less in motorcycles, I think it varies on the segment, on the geography, on the player. I think as competition heats up aggression in market does go up, it is very natural and normal. And every player will chose its own strategy and the level of capacity with which it comes to undertake any one of these actions.

Moderator: Thank you. We have the next question from the line of Mr. Binay Singh from Morgan Stanley. Please go ahead.

Binay Singh: Firstly, just a clarification. Did you point out that you expect double-digit growth for yourself this year, is that the correct understanding?

Ravi Sud: Yes, growth of double-digit is there.

Binay Singh: And sir, within that like just to look at cost of customer acquisition on a YoY basis, last festive versus this festive, so broadly in your sense is it going up or is it largely stable?

Ashok Bhasin: I think it is a numerator, denominator thing. Since the numbers of customers that will get acquired over the festive is yet to be determined because season is yet to close, arithmetic can only follow that. As I said, a typical part of the festive season is ahead of us and how many consumers or customers will be attracted and concluded during that period will change the equation of whatever the investment if anybody is making during this period.

Binay Singh: So currently like when you started off saying that the start of the festive season was a little soft, but last year I remember you did around 11% growth during the festive period. So you are expecting similar kind of growth this year, so you expect a significant pickup in the coming days. So in that sense in your view that will not necessarily lead to higher customer acquisition cost?

Ashok Bhasin: It also depends on the base of the number of customers, not just the growth base. So I think without speaking too much on that calculation, all I would say is we are focused to deliver good growth during festive and all our actions are aligned to that and our investments are aligned to that growth strategy, execution and investment. So generally speaking, maybe next quarter when we see we would have festive results and all of the things. But certainly we are focused on growth and we are confident about it.



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Moderator: Thank you. Our next question is from the line of Sahil Kedia from Merrill Lynch. Please go ahead.

Sahil Kedia: Just wanted to check on two things, one, has there been an increase in the overall incentive that is being today given as the festive season started off softly, not specifically for you but also for the industry? That is question number one. Question number two, we started to see Passion volumes come off quite significantly over the last 12 - 15 months, what is the plan there because that used to be a pretty sizable portion of our volumes. That is it from my side, sir.

Ashok Bhasin: Your first comment was pertaining to the discounts by players, did I hear it correct?

Sahil Kedia: Yes, so discounts or any kind of subvention given at the festive season started off softly, has there in the recent days been an increase? Because that is what the sense we are getting from dealers. So just wanted to check that with you. Secondly, it was on Passion, yes.

Ashok Bhasin: I think player to player this would vary, I have said this earlier on this call, certainly some players maybe on a more aggressive path in terms of the promotion and discounting, but I would leave that to your own market study and intelligence. As far as we are concerned, as I said we are focused on our basics of fast availability, customer experience, service and then of course suitable level of support programs. However, as far as the Passion question is concerned, Passion is in that 100cc segment, that segment has not been growing as you know, we are still sitting on a dominant share there because part of the consumers that I said earlier are directly entering at the 125cc levels, also vindicated by some growth that we have got in Glamour. And secondly, some consumers of that segment are also adopting other product model opportunities in two-wheeler segments with scooters, etc. So I think this whole play has to be seen on a more holistic level rather than just a specific segment of 100cc, because that is how it was and the market was very simplistic, but now the market is getting more segmented for the consumers and sale pattern. And therefore we have to treat it in that product itself now based on different segments. As far as our own access are concerned, we have expanded the Hero I3S technology now to Passion Pro that has just got into the market in the last few days and we continue to expand that I3S account on multiple models and that would certainly help. And then just like every other segment of the market there is growth happening on future product launches and has had development and refreshes which should also impact 100cc Deluxe segment. But those details can be spoken to more specifically when we launch those models.

Moderator: Thank you. Due to time constraint, we will be able to take one last question. The last question is from the line of Jatin Chawla from Credit Suisse. Please go ahead.

Jatin Chawla: The question is on Hero FinCorp, there was some funding that was raised, if you can just clarify now what is Hero's stake and at what valuation was that funding raised during the quarter?

Ravi Sud: Prior to raise round of funding Hero used to hold about 48.2%, now after funding Hero's stake is close to 40%, 40 point something which I do not remember. And the total amount of funding



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which we have raised is about Rs. 1,000 crores. And post money valuation is about Rs. 5,100 crores.

Jatin Chawla: And if I can just squeeze in one more question. On your debtor side I have seen, if you look at from March to September there is almost a Rs. 1,000 crores increase on the receivables. So what is that pertaining to, have you eased the terms with your dealers or is it more to do with the dealership expansion?

Ravi Sud: There are two issues, I will answer this in two ways. Number one, all this talking which has been done to take care of both the festivals in October, so if you have seen our figures of September they look very high, but during the month of October and in the month of November these figures should and will normalize.

Moderator: Thank you very much. That was the last question, Ladies and Gentlemen. I would now like to hand the conference back to the management for any closing comments.

Umang Khurana: Thank you Nishant, thank you ICICI for holding us and thank you everyone for coming on the call. Here is wishing all of us a Very Happy Diwali. Thank you.

Moderator: Thank you very much. On behalf of ICICI Securities, that concludes this conference. Thank you for joining us, Ladies and Gentlemen. You may now disconnect your lines.