



“Hero Motocorp Q2 FY18 Earnings Conference Call”

November 01, 2017



**MANAGEMENT: MR. NIRANJAN GUPTA -- CHIEF FINANCIAL OFFICER,
HERO MOTOCORP LIMITED
MR. ASHOK BHASIN – HEAD, SALES, MARKETING &
CUSTOMER CARE, HERO MOTOCORP LIMITED
MR. SURENDER CHHABRA -- VICE PRESIDENT,
CORPORATE FINANCE, HERO MOTOCORP LIMITED
MR. UMANG KHURANA, HERO MOTOCORP LIMITED**

MODERATOR: MR. CHIRAG SHAH – EDELWEISS SECURITIES LTD.



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Moderator: Ladies and gentlemen, good day and welcome to the Hero MotoCorp Limited Q2 FY'18 Earning Conference Call hosted by Edelweiss Securities Limited. As a reminder, all participant lines will be in 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 telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Chirag Shah from Edelweiss Securities. Thank you and over to you, Mr. Shah.

Chirag Shah: Thank you, Karuna. Good evening, everyone and thanks for logging on to the call. We thank the management of Hero MotoCorp for giving us the opportunity to host the call. I would now like to hand over the call to Mr. Umang Khurana from Hero MotoCorp and take things ahead. Over to you, Mr. Khurana.

Umang Khurana: Thank you, Chirag. Hello, everyone. Welcome to the Q2 FY'18 Post Results Conference Call. We have with us today from Hero MotoCorp Mr. Niranjn Gupta who is the Chief Financial Officer; Mr. Ashok Bhasin – Head, Sales, Marketing and Customer Care and Mr. Surender Chhabra who is Vice President, Corporate Finance at Hero.

To begin with, we will begin with Niranjn talking about the quarter's results for some time and then we will take the Q&A. Over to you, Niranjn.

Niranjn Gupta: Thanks, Umang. Hello, everyone. Good morning, good afternoon, good evening and good late evening depending on which part of the globe you are joining from. Just a couple of minutes on the snapshot for the quarter before we open it for question. You would have seen our results; our Q2 volume at 20.2 lakhs have grown by 10.9%, our net revenue as reported is up 7.2% while if you look at our underlying revenue grossed up for the GST impact of Haridwar, it is 11.5%. EBITDA margin you have seen at 17.5%, this absorbs the 42% which is not accounted for in the quarter as the state's notifications have not yet come out. Like-for-like EBITDA growth would have been 10%. Our PAT reported Rs.1,010 crores and you would have seen that the effective tax rates have gone up because of the phasing out of investment allowance and reduction in the deduction on account of R&D expenditure. All in all, a strong financial quarter for us.

Over to you Umang.

Umang Khurana: Thank you, Niranjn. We can begin with the first set of questions please. Karuna?

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin with the Question-and-Answer Session. The first question is from the line of Jay Kale from Elara Capital. Please go ahead.

Jay Kale: Sir, my first question was if you can just throw some more light on this GST accounting treatment, you said that EBITDA adjusted for this while revenues would grow by 11.5%, EBITDA will grow by 10%. So just wanted to understand the accounting treatment will flow



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through the EBITDA if you can just explain in a little bit of detail? How much as our Haridwar production – was it around 35%?

Niranjan Gupta: As far as the top line is concerned, as I mentioned, the net revenue as reported is up 7.2%. Haridwar as you know was earlier excise exempt before GST regime. So the pricing was inclusive of all the excise. Now with the GST regime, everything gets netted off. So that is the effect. Our revenue gets depressed as far as this quarter is concerned and hence that is the revenue impact. As far as EBITDA is concerned, again, the same thing where the excise exemption went away and GST came in, so the CGST portion was to be refunded back to all the area-based exemption units. The central government has come out with the notification which underline 58% refund and that is what has been accrued. The 42% balance state will need to come out on a notification and we are awaiting the same. That is the impact of Rs.50 crores as 42% and which if you gross it up, then the EBITDA growth is on the higher side.

Jay Kale: On like-to-like, maybe you would be having the number. On the RMC (raw material cost) to sales front, at least the numbers that we have currently has just grown to 40 basis points increase. So first is your outlook on the commodities and second is the discounts that have doled out for the festive season. Would that be majorly accounted for in Q3 all the marketing expenses for the Diwali festive season or it is accounted in the Q2?

Niranjan Gupta: As far as commodity is concerned, yes, that is up 40 basis points, it is a carryover impact of the previous quarter commodity cost because commodities increase happen through the quarter. As far as outlook is concerned, we have mentioned earlier also, it is very difficult to give an outlook. Although, of late the commodities have been firming up as you know whether it is crude oil or aluminum or steel.

As far as the festive is concerned, we carry on doing accounting as per the expenses for the period that they are incurred. So essentially that is the way that we do the accounting. It is a normal basis of accrual accounting.

Jay Kale: If you can just give us a percentage of your advertisement and marketing expenses for the quarter?

Niranjan Gupta: It would broadly be similar to what we have been spending so far.

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

Pramod Amte: Sir, based on your note-4, you have indicated some Rs.70 crores has been accrued and included if I understand rightly it is part of the results and what you classify as Rs.50 crores is not accounted in your results, am I right?

Niranjan Gupta: Rs.70 crores is what has been accrued and not Rs.50 crores which is the 42% is what has not been accrued, not taken into account in the results.



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Pramod Amte: Second one is to Mr. Bhasin. For the festival, how has been the customer behavior in rural versus urban – have you seen any variation in demand pattern and hence the outlook post-festival?

Ashok Bhasin: This festival has been a record festive for Hero MotoCorp as you could have seen from several aspects of our performance of sales and accounts of 2 million in the quarter, etc., First quarter, predominantly the urban markets begun to improve, in the second quarter which is really the view into the festive, the rural markets have also begun to improve and Hero being in the leading position both in distribution and in terms of brand and product portfolio, has clearly benefited from that. Going forward, we expect the momentum to continue. Most major markets have shown good growth during this period in rural markets and have been parts of the country which have been a little slow. We expect at least some of those markets to begin to improve in the second half. But overall there is an underlying growth both in urban and rural supported with the festive account.

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

Raghu Nandan: You said that the notification for the balance 42% is awaited from the states. Just wanted to understand what is your sense, whether this 42%, is there a chance that this benefit could lapse and the state governments may not provide this benefit or it is just a timing issue and very soon you expect a notification coming in?

Niranjan Gupta: So far what we can say is that we have represented as an industry to the states and the representations have been going on for quite some time. Since then central government has come out with 58% and we do expect state government to come out with the notification. That is all we can comment as of now.

Raghu Nandan: The demand from government employees have been strong and there have been special schemes the company has been offering to attract like sales to this particular segment. Just wanted to understand like how has been the growth in this segment and also what portion of our sales come from this segment?

Ashok Bhasin: While I would not speak to specific numbers of the sub segment like government employees, but what I would say is that once again Hero has been at the front end of servicing all its segments and government employee scheme that they had offered also delivered very good results, backed up with the brand equity with the consumer and our distribution and servicing. Those are critical factors in the choice of brand and the consumer franchise.

Raghu Nandan: Any pricing actions in the last quarter or anything expected in the month of October, November?

Niranjan Gupta: We cannot comment on the expectations on the pricing apart from the GST benefit that we have passed on, there hasn't been any significant pricing action in the last quarter.



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- Raghu Nandan:** Haridwar production number, can you share sir?
- Surender Chhabra:** Haridwar production if I say is 35.3% dependence of overall numbers that we are declaring.
- Moderator:** Thank you. The next question is from the line of Karthik Chellappa from Buena Vista Fund Management. Please go ahead.
- Karthik Chellappa:** I wanted to get your thoughts on two of our sub-segments. So despite our record festive, our scooter sales are still down YoY and we have lost considerable market share. The gap that Glamour had with Shine has also widened. The Shine is now I think almost 70,000 units more than Glamour in the second quarter specifically. So your thoughts on these two aspects? What percentage of our sales this quarter came from Hero Fincorp?
- Niranjan Gupta:** The second part of the question can be answered by Mr. Chhabra first and thereafter Ashok will take up the first part.
- Surender Chhabra:** As far as financing from Fincorp is concerned, it is in the first quarter we have told that 1,80,000 units were financed, in the second quarter again they had done the same numbers, but the major jump will come during the festival period of October in the third quarter you will see a major growth will be shown.
- Ashok Bhasin:** Coming to the other two questions or comments you had, one is on the 125cc motorcycle segment where you have referred to one of our brands in the portfolio Glamour and the competing brand. We had shared on a previous call that we did have some supply side constraints and issues on the 125cc production. Those are resolved but now the carryover of that impact was felt in the Q2 as well. The underlying demand and the strength of our brands continues and you will see it in the balance part of the year that our actual numbers will also pick up which were constrained due to some supply side issues in the 125cc segment. That is about our performance there and our strength and our leading position and we clearly are the market leaders in that segment between our portfolio of brands in the 125cc despite certain numbers of a competing brand that you may have quoted.
- As far as the Scooters are concerned, we have seen that in the third quarter and festive that has just ended, our overall two wheeler performance was very good. It was actually supported with very strong growth, not just in motorcycles but also on scooters. The run rates have improved and our market position in several markets have improved. We expect this momentum to continue in the balance part of the year including the support of some new launches which will come from the motorcycles and scooters later in the year.
- Moderator:** Thank you. The next question is from the line of Amyr Pirani from Deutsche Bank. Please go ahead.



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Amyr Pirani: Sir, again going back on the revenue accounting. So basically if I look at the QoQ movement in the ASP, if I just divide the net sales on the last quarter and the sales of this quarter by volume, there is a decline. So you are saying almost the entire can be explained by the 42% gap in the benefits or is there something else that we are missing here?

Niranjan Gupta: It is not in the 42% gap in the benefit. One thing is GST accounting explains the entire gap. So that is the simple answer to your question. But it is not that 42% part, it is because Haridwar prices because there was no excise, therefore there was ex-price. Now with the GST included, so the GST get netted off. Earlier the material cost would also have excise element which has no credit and therefore the output also will have no credit. Now both the things actually get netted off, the material also and the sales price as well. But the entire thing gets explained by the GST accounting.

Amyr Pirani: I think earlier the spare parts sales were also reported including excise and now they have to be reported ex of GST. So that would also be placing on a headline basis a negative impact on the reported revenue. Is that correct?

Niranjan Gupta: As far as spare parts sale is concerned, with your two wheelers sales, now with the GST both are net off excise and that is why you will not see major difference between these two.

Amyr Pirani: On an absolute basis, we have seen other expenses have declined by 6-7% on YoY basis whereas your volumes are obviously higher. Is there anything else which is happening here because on an absolute basis your other expenses are down?

Surender Chhabra: With the GST implementation from 1st July, there were certain expenses which was part of expense. Like if I just take service tax, where the input tax was not available there, so that was part of expense. Now that expense have gone. Second, Q2, Q3 compare corresponding quarter last year we were paying royalty partly, this time there is no royalty to Honda. The third is the CSR expenses which has gap on QoQ basis.

Niranjan Gupta: Just to add up, there is also phasing of expenditure involved. Therefore, quarter-to-quarter they do vary and you could see then subsequent breakup as we move forward in the next few quarters.

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

Jinesh Gandhi: Continuing on the GST accounting, just to clarify, the GST benefit that Haridwar plant of Rs.70-odd crores is part of revenue line item, right?

Niranjan Gupta: Yes.

Jinesh Gandhi: Otherwise the sales tax incentive that Neemrana and Gujarat plant again accounting continues to similar to Haridwar?



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- Niranjan Gupta:** Yes, they were always part of the operating revenue, so they continue to be part of the operating revenue.
- Jinesh Gandhi:** Second question pertains to the festive season retail sales growth. Would you be able to give what kind of growth we saw festive-to-festive season this time?
- Niranjan Gupta:** We would not be able to comment on the festive sales growth, but we would be able to comment only on Q2. Having said that, I hand over to Ashok for any comments regarding festive season.
- Ashok Bhasin:** I would just reiterate that we had strong retail growth as well in the festive season both in motorcycles and scooters, strong double digit growth, that is all I would say at this stage....very good festive season.
- Jinesh Gandhi:** Industry also would be similar to us or we would have gained share?
- Ashok Bhasin:** We would be better than industry during this period and that would lead to some market share gain as well.
- Jinesh Gandhi:** Third question pertains to commodity cost inflation. We have seen commodity prices going quite high during end of the quarter in October. Any sense on what kind of commodity cost inflation are we looking at based on the current spot prices?
- Niranjan Gupta:** We would not be able to quantify that because commodity keep moving up and down. But yes, of late the commodity prices have moved up. Like I said, we will see some impact in the coming quarter. But equally we continue to take appropriate pricing actions, balancing our cost, growth and margins.
- Jinesh Gandhi:** Lastly on other expenses, you indicated that there has been phasing out of expenses and CSR was materially lower in this quarter as well.
- Surender Chhabra:** Yes, CSR was materially lower in this quarter as compared to the previous quarter. On the other hand, what we have told that the service tax which was there for Haridwar where the input tax was not there. With the GST coming, there is no service tax element there as an expense.
- Niranjan Gupta:** It is all got subsumed in the GST. So there are costs and taxes which got subsumed in the GST and NCCD which was part of the other expenses, they have subsumed in the GST and therefore get netted off from the revenue. So therefore that is the expenditure thing that happened.
- Jinesh Gandhi:** This other expenses as a percentage of sales at around 10% is more or less sustainable at current levels bearing...?
- Niranjan Gupta:** When you look at the ratio, if you see the numbers, you will see an operating leverage of around 100 basis points because of the volume part of it. So clearly operating leverage will depend on



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QoQ on the volume basis and there are certain expenditure which have been phased. You will have the phasing effect moving forward, just like Chhabra ji mentioned, CSR and some other expenditures.

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

Sahil Kedia: I have two very quick questions; one, can you help us understand what is the inventory level in terms of weeks post the festive season? Number 2, in this quarter it seems that you have made another small investment in Ather Energy. Any clarity or timeline on when we can expect a product or production coming from there?

Niranjan Gupta: As far as Ather is concerned, they have published in terms of when they expect their product line. We have no further comments to add on that. As far as inventory is concerned, post festive, we are in our normal range of 4-6-weeks.

Moderator: Thank you. The next question is from the line of Arya Sen from Jefferies. Please go ahead.

Arya Sen: Firstly, just to go back to the GST adjustments. Adjustment to the revenue is around Rs.330 crores based on the 11.5% number that you have indicated and the same amount would get added to raw material expenses, right?

Niranjan Gupta: Not the same, it will be in different parts, because obviously it entirely does not get netted off. So therefore certain portion to the extent of material cost to the revenue whatever that percentage is, that is what gets netted off from the material also.

Arya Sen: When was the last conversation you had with the state government regarding that 42%, Rs.50 crores that you have not provided?

Niranjan Gupta: We keep representing to the government over the last three months through various associations.

Arya Sen: If you could give some color on growth in rural sales in the second quarter as well as the first half?

Ashok Bhasin: Overall industry growth in the first half has been closer to 10% as we said in the Q1 it was more driven by the urban markets but in the latter half of Q2, the rural markets have kicked in and I would say now both urban and rural are growing in the same range.

Arya Sen: Does that mean in the second quarter rural had improved over 1Q but it was still lower than the average?



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Ashok Bhasin: No, what I am saying is that in the first quarter, urban was growing faster than rural, in the second quarter rural has picked up and now rural is growing in line with the overall industry growth which we are seeing now.

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

Sonal Gupta: Just wanted to check, if you could shed some light on Scooters essentially in terms of what proportion of urban and rural markets to Scooter constitute now -- are we still seeing that the Scooter share is still going up rapidly in urban markets because I think the previous data point was that they are already at around 35%-odd, so could you just talk about where they are?

Ashok Bhasin: At an overall level, there is not a very fine measure of Scooters in rural, but yes, the Scooterization was driven through urban and I would say a moderate expansion in the lower order towns in Scooters as well. At the same time if you look at the first half, Motorcycles have seen an extremely strong growth as well because they have managed to serve the consumers needs particularly in the rural market very-very strongly. As I maintained on previous calls, we anticipate that while Scooters will grow, we also expect a good underlying growth trend for Motorcycles especially in the non-urban markets because of the demographics and the infrastructure and the way the consumers use it, the utility, and the user habits, etc., are not just the road infrastructure.

Sonal Gupta: Any sort of range in which you see, as of now that rural is 10-20% is Scooters, how much is Scooters in rural?

Ashok Bhasin: I would think there would be broad 75-25 type of split between urban and rural. As I said, there is not a perfect measure on that but that would be my good estimate that approximately we would be at 75-25, not perfectly in rural but I would say the lower order urban included. So rural if you take only will be very-very low... probably less than 10%, but if you take the lower order urban towns, probably be 75% Motorcycles and 25% Scooters which we include some of the small towns.

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

Pramod Kumar: On the margin side, given the robust performance what we had in first half and the phasing out of expenses as you highlighted for CSR and probably higher marketing spend and commodity inflation is also at place, just wondering is it fair to assume that margins can still hold 16% above kind of a mark even in second half?

Niranjan Gupta: We would not be able to give guidance or we do not give guidance of a quarter or a second half but yes, there are a couple of things which we can reiterate which you have said. Essentially the other expenses in the current quarter have the operating leverage and the phasing effect and



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commodities have started moving up, could lead to cost increase in second half, but margin will also depend on the pricing action.

Pramod Kumar: Is the industry demand festive gives you enough comfort to seeing more meaningful pricing action from the industry side because it depends on the competitive intensity as well. So what is your read of that?

Niranjan Gupta: Will not be able to comment on that because we keep taking calls based on a balance between cost, growth, market share and margins.

Pramod Kumar: The second question is pertaining to the category exposure, in the sense that if you look at relevant categories like say Scooters and Premium Motorcycles and even Exports, your share seems to be falling consistently. Premium Motorcycles we have gone below 3% market share or thereabout in recent months which makes us, really kind of pretty marginal player in that category while the category continues to expand meaningfully. Even in Scooters, I think the journey from 20% to closer to 12% market share has happened, I think way too rapidly and we have been pretty active on the promotions on that and you did a major update about the Maestro Edge which we talked about in the previous quarters and this category is growing 17-20% of the same type. It is not like a shrinking category as such. So I am just wondering what is not working in this space as in both in Premium and Scooters, because we have done the product intervention but does not seem to be getting reflected even in the wholesale market share?

Ashok Bhasin: So let me comment on both, I think let me first address your comment on the Premium segment. As you know, the premium itself is made up of two sub-segments -- There is the below 200cc and then there is the above 200cc. We have shared on a previous calls as well that we recognize that we are grossly under-represented in the Premium segments in both parts. Later part of the year we are going to introduce new products as well and then obviously in the coming quarters. In the new fiscal as well to improve our product portfolio presence and thereby to begin to grow in that market segment and obviously that would then start reflecting in share. It is a journey, it could take several quarters and launches, but we believe both from portfolio standpoint and then to follow up with that and go to market, we would be committed to improving our performance in Premium which would be reflected in the future.

As far as the Scooters is concerned, I guess you are referring to a range of 18% to 20% was the first time pipeline fill of the new products when they came in the fiscal '15-16. Subsequently, the new scooters that you refer to been the Maestro Edge, Duet, certainly, in the current fiscal in the Q1, those have gone into the market and in the festive season as I said, we have seen good response to both those scooters. While you are seeing the fall from the previous 18% to 12%, I would just say that the journey upward from the 12% has begun and that would be reflected in market share in the coming months. Scooters is a category where we will leverage the two new products that came, Maestro Edge, Duet and subsequently in the year, we will also see new



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product launches which will further support and catalyze our growth in Scooters. So that is the way we are working.

Pramod Kumar: Just to summarize, I think you remain optimistic on reclaiming the market shares on Scooters and Premium Motorcycles?

Ashok Bhasin: Yes.

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

Hitesh Goel: Sir, on the GST impact, in your response to the earlier question, in the top line there is Rs.330 crores differential. You are saying not everything can be part of raw material. So is it right if I take 70% of that to just get to the gross margin and rest would be in staff cost and other expenses?

Niranjan Gupta: It would be, yes, around 60%-70% in materials but it will also be in other expenses because for instance certain taxes have got subsumed, like Chhabra ji explained that you would have service tax and NCCD which are all part of the other expenses. So parts lying material which would be 68%-70% and other expenses and then there is Rs.50 crores which we have not accrued which is 42%. So if you look at all these things, it would eventually balance out.

Hitesh Goel: That is what I was calculating. So gross margin has deteriorated by 50 basis points if I take 70% of this amount in raw materials and 60 basis points is pertaining to the incentive that you are talking about which has not been the government incentive which has not come into the P&L and 40 bps you said on QoQ basis the raw material cost is increased. So rest 50 bps is due to this leap benefit...cost reduction, that has come in?

Niranjan Gupta: I am not sure I understand your maths, but I can comment on the leap benefit. Leap benefit has been at the similar level as last year, around 30-40 basis points you could attribute to the leap benefit.

Hitesh Goel: There was news flow that you have been giving discounts on the Scooters especially in the festive season but as per the math we are not seeing any major impact on your margins. So can you comment on that and is the discounts continuing?

Surender Chhabra: I think Hitesh the festival period started from 21st of September, it was only 9-to-10 days during that quarter, festival period is in the month of October.

Hitesh Goel: After the festive season have the discounts continuing or?

Niranjan Gupta: Discounts are for a defined period of the festival period only. We have discontinued our discounts on the Scooters.

Moderator: Thank you. Next question is from the line of Jatin Chawal from Credit Suisse. Please go ahead.



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- Jatin Chawla:** A couple of questions; one, you mentioned on the phasing out of other expenses. Now Hero as a company typically other expenses tend to be higher in the second half. So when you mean phasing out, do you mean that you are spreading it equally and hence this time we will not see a big spike in other expenses in the second half like we normally see?
- Niranjan Gupta:** No, what we meant was that you see lower other expenses this quarter, so exactly what you are saying, second half is likely to be higher than first half, where there is a phasing involved which is normal.
- Jatin Chawla:** Can you just help me with the price hikes that you have taken so far in this financial year?
- Niranjan Gupta:** We have already talked about the price hikes which we took in the early part of the year and then the price decrease that we passed on through the GST benefit, apart from that, there has not been any significant movement on the prices.
- Jatin Chawla:** I think some of your competitors talked about small price hike in September. You have not taken any?
- Niranjan Gupta:** No significant movements.
- Jatin Chawla:** In terms of these discounts, how do you account for that – is it netted off from the top line itself or do you show them in other expenditure?
- Niranjan Gupta:** As per the AS accounting, all our sales discounts are netted off from the revenue itself.
- Moderator:** Thank you. Next question is from the line of Chirag Jain from SBI CAP Securities. Please go ahead.
- Chirag Jain:** Sir, just wanted your thoughts on electric vehicle from a medium to long-term perspective. Obviously, you have investments in Ather Energy. But apart from that, just wanted your thoughts on this segment and how are we placed from medium to long-term perspective?
- Niranjan Gupta:** As far as electric vehicles is concerned, as we mentioned last time also, we continue to have twin-pronged strategy which is one is investment in Ather which you are already aware of, and the other obviously are in-house development also continues.
- Chirag Jain:** Would you be able to elaborate further in terms of in-house plans as to when you are planning to launch and stuff like that?
- Niranjan Gupta:** Not at this point in time. Closer to the time we will do necessary announcements.
- Chirag Jain:** Regarding this Karnataka regulation, any update on that as to when this would be lifted?



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- Ashok Bhasin:** The matter is sub judice on this. Therefore, I would not like to comment further, but effort is on to represent both at the government and at the judiciary.
- Moderator:** Thank you. Next question is from the line of Ashutosh Tiwari from Equirus Securities. Please go ahead.
- Ashutosh Tiwari:** On the Scooters side, we have currently no offering in 125cc segment. By what timeframe we can expect some models over there?
- Ashok Bhasin:** I cannot speak to specific model or other details, but as I said earlier on this call as well, we will have new launches on Scooters coming in the latter part of the current fiscal. More details closer to the launch as we always do.
- Ashutosh Tiwari:** But do you think that this segment could evolve further – do you see opportunities in this segment because that market is not that big right now? Suzuki is doing well and also Honda has just launched a vehicle over there.
- Ashok Bhasin:** Clearly, we expect to be a full line player in Scooters and therefore we recognize that the 125cc segment is important, actually it is a very fast-growing segment, and at an appropriate time we would be appropriately represented in that segment as well.
- Ashutosh Tiwari:** Sir, in this Super Splendor we shared the volumes in last year first half. So how much of volume for that bike particularly because we do not get the full share of 125cc because we do not include Super Splendor in that segment basically when you report SIAM.
- Ashok Bhasin:** Splendor the part of 125cc and so is Glamour. As far as our volumes are concerned as referred to some supply side constraints which are resolved, and we expect stronger numbers in the balance part of the year both for Glamour and Super Splendor. Is there any further detail, we can take it offline.
- Ashutosh Tiwari:** How much of spare parts growth in the current quarter versus last year?
- Niranjana Gupta:** As compared to corresponding quarter, I think we are more or less flat, but as compared to the previous quarter, we have growth of 18% is there.
- Moderator:** Thank you. We have the next question from the line of Chirag Shah from Edelweiss Securities. Please go ahead.
- Chirag Shah:** Sir, one question on Scooters I had. What according to you is driving the Scooter demand, in the sense is it positioning of the product is driving, is it fuel efficiency which is a driving factor for the successful brand and how does Hero like to position itself in the Scooter space?



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Ashok Bhasin: I think from a category perspective, Scooters have been moving in the mix bag of 150-200 basis points year-on-year. This is coming on the back of a couple of factors -- One is the Scooter offerings now are significantly superior to say if you go back to five to ten years. So I think the scooter offerings in the market of several players and certainly Hero's Maestro Edge do it, I think are very compelling proposition for the consumer. Second is the demographics. So the urbanization, the working women, the young college students who needs mobility, the improved roads and infrastructure, all of those factors support the evolution of scooters as a product format for certain consumers, and for certain other consumers, Motorcycles still is the preferred format for a variety of reasons, whether it is utility or distance or roads or power. So I think both have their own reasons and these reasons for Scooters are a combination of what the products have to offer and the demographic trends including urbanization.

Chirag Shah: Within the Scooters, certain brands are doing reasonably strong, even if we look at companies who are successful, not all of their brands are doing well. So what is the specific positioning according to you is driving the brand and how does Hero see the white space over there? What is the end consumer looking at – is he looking at utility, is he looking at fuel efficiency or is he just looking at word of mouth of the city for creating the brand perception?

Ashok Bhasin: So while I would not comment on the positioning of any competing brand, but I would say that because Scooters is now almost 34%-odd of the total market, so the market size is large, and as we do know that when market evolves, penetration increases and the size of the market segment becomes larger and 30%-35% is the large segment, then the sub-segments emerge. So there would be consumers who would be seeking a value proposition, a benefit and an appeal and there would be a side of consumers to whom some other aspects will be more appealing. Within that, obviously brands that will be able to address the needs and aspirations of the larger segment of consumers at an appropriate price will command a market share over a period of time which will be higher. Even from our portfolio perspective like you said, actually, more than one player in the Scooter market has multiple offerings, position and targeted uniquely just as even Hero has. So we have Edge which is more on the style quotient and little bit more macho, then we have Duet which is the ubiquitous sort of universal family multi-use sort of segment, and then we have Pleasure which is uniquely positioned and pioneered by Hero for the Women segment. So there are distinctive positioning. I think the companies that will more sharply position their brands within the portfolio will benefit more from this evolution.

Moderator: Thank you. Next question is from the line of Basudeb Banerjee from Antique Finance. Please go ahead.

Basudeb Banerjee: A couple of things; if I have seen last three quarters your mix of north zone as per SIAM data has increased significantly by 900 basis points at the cost of west zone and correspondingly there has been a sharp surge in your Deluxe brand, so bulk of the delta of volume seems coming from Deluxe itself, almost 80,000 per month. So if you can highlight on this development and how to look at it down the line?



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Ashok Bhasin:

I think from a Geography mix, I would comment at two levels – One, while I do not want to get into so many micro specifics, but even if you look at the industry growth trends in the first half, there is a difference in the growth trajectory across the country. I did say in the earlier part that there are certain markets in the country while many have come up with good growth, there are few markets that are lagging behind, for example, particularly Maharashtra rural, etc., has still not sort of participated in the big uplift of growth that has come. The second element is that Q1 which saw the barren season, the Q2 which reflected the market movement coinciding with the festive season in both these north and some of the Hindi-speaking market get a disproportionate lift and Hero being the market leader, obviously, participate in that and lead that market. So those are two factors that you have to consider -- One is at a macro level;

Second is from receptive perspective. We do not obviously have a very critical role and as you know we are extremely strong and we actually drive the market in several of the Hindi-speaking market to the dominant market share.

Basudeb Banerjee:

Where bulk of the market is shifting towards higher mid-segment or the 150cc plus segment, from those entry segment bikes, on the contrary we can see that a big part of the delta coming from the entry segment model Deluxe. Are you repositioning the brand or despite such a mix your margins have been pretty strong, so just wanted to understand the strategy from an entry level bike perspective?

Ashok Bhasin:

I think the strategy is very simple that in the segment where we are participating, we always target a strong position and a leading position and currently in the market segment our entry Deluxe, 125cc we are market leaders in all, so we continue to drive that. As far as any comparison with the Premium segment is concerned, I do not think that would be an appropriate one at this stage because I have said that we are under-represented in terms of product portfolio itself. So when that product portfolio expand, I think the balance and the mix would change. But that said, I think we will continue to work towards maintaining our strong leadership in every segment where we are leaders today, which includes the entry segment.

Basudeb Banerjee:

I missed out the expenditure of Rs.330 crores adjustment to revenue you are explaining. So if you can highlight that again?

Niranjan Gupta:

Rs.330 crores which is on Haridwar if you simply take the selling price, multiply by around 13.5% and take Haridwar percentage to our total sale, you will get to around Rs.330 crores which is around 1600 per vehicle and the Rs.330 crores is actually there are three other elements which are down the line offsetting. So materials will form around 70% to that extent. Then you have Rs.50 crores which is the 42% on a notification which you have not accrued and then the balance Rs.50-60-odd crores that you would see the other expenses have come down because those factors have got subsumed in the revenue. So that is where the three effects then add up and reconcile to Rs.330 crores.



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- Moderator:** Thank you. Next question is from the line of Jamshed Dadabhoy from Citi Group. Please go ahead.
- Jamshed Dadabhoy:** Two questions; firstly, I think what are you planning to do differently in the Premium segment where you are underrepresented? I know you will have products but given that your competitors have such a big head start, how will you all look to gain market share within that segment? Second question on pricing. You have mentioned that we get a benefit of roughly Rs.1600 bucks per vehicle at Haridwar and the incentive is expected to phase out. So what will you do to sort of mitigate the margin impact or offset that?
- Niranjana Gupta:** I will talk about the second question first and then I will give to Ashok on the Premium part of it. So we have stated earlier also that the phasing out of Haridwar tax benefits have an impact of roughly around 100 basis points, and over a period of time we are also going to ramp up Halol production and then at some point in time, Andhra is also going to come in. So the fiscal benefits which come down in a certain year will get partly made up as we move forward by ramping our production in Halol and when Andhra comes up. So that is how the phasing will happen.
- Ashok Bhasin:** As far as your question on Premium is concerned, I would just reiterate what I said, I think more details on what would it entail and what would it encompass would be only more appropriate at the time of the launch and thereabouts, but needless to say that our new launches would be effectively supported both with the appropriate product and the most effective go-to-market strategy as applicable to the market, to the segment at the time of launch.
- Jamshed Dadabhoy:** On your dealer network, it has been reasonably static for the last few years at about say between 6000-6500 dealers plus sub-deal out, would you all be considering expanding this going forward especially if you are all seeing a pickup in rural, how should we think about this?
- Ashok Bhasin:** So we do refresh our Dealer portfolio in terms of the mix, as you know we have multiple tiers. So at an appropriate stage based on the market development index and needs of the market, sometimes even if the total number is not changing adequately, the mix upgrades itself to higher tiers of distribution that we have in the dealer network. Secondly, as we expand our portfolio and growth, at appropriate stages, we keep tracking the market happening and the market scoping, and we bring in the new expansion effectively. But by far, both on sales and service, we continue to lead with a very vast network that you said and we service our consumers very effectively.
- Jamshed Dadabhoy:** So at least as of now we all do not see the need to increase numeric coverage, but from a qualitative perspective...?
- Ashok Bhasin:** We will do both as appropriate to the market.
- Moderator:** Thank you. Next question is from the line of Priya Ranjan from Systematic Shares & Stocks. Please go ahead.



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- Priya Ranjan:** My question pertains to the Deluxe and Splendor volume. You have mentioned earlier that probably rural is not picking up, has actually participated only latter part of the September or so or the festive season. But when we look at the Deluxe volume, it has gone up by around say 35% but Splendor volume has gone up by only 5%. So there is some kind of disconnect because probably Deluxe will be more rural rather than Splendor?
- Ashok Bhasin:** All I would say is that, all our brands including Deluxe and Splendor are participating effectively in the market growth and driving it, our market share positions is extremely strong, that is all I would say without going by model, by geography and by market segment, but I think the numbers do demonstrate that in both the segments, we have a leading position and we have done extremely well in the first half the year including festival.
- Priya Ranjan:** There is kind of downtrading or something which we have seen?
- Ashok Bhasin:** We do not see any downtrading, we certainly see expansion of our consumer franchise. The total numbers demonstrate that the expansion in franchise is taking place and you do know that in every segment our products are at the higher end of the market segments in terms of the value they bring to the consumer and actually pricing in several cases as well.
- Moderator:** Thank you. Next question is from the line of Jinesh Gandhi from Motilal Oswal Securities Limited. Please go ahead.
- Jinesh Gandhi:** My follow up is on Gujarat plant. Can you indicate where are we in terms of our utilization at Gujarat plant and what is the ramp up plan there?
- Niranjan Gupta:** Gujarat plant started in the second half of last year and now gradually, yes, we are increasing our daily production there. So within this year, you will see limited growth, but coming year, yes, phase wise growth is coming up in that plant.
- Jinesh Gandhi:** Capacity remains at 750,000?
- Surender Chhabra:** Gujarat presently, yes.
- Jinesh Gandhi:** What is our CAPEX plan for this year and next year?
- Niranjan Gupta:** As far as CAPEX plan is concerned, so we will not be giving year wise, we had indicated that over a period of two years, we plan to invest close to around Rs.2,500 crores, currently, that remains our plan. Chhabra ji do you want to add anything?
- Surender Chhabra:** We have the pipeline of expansion of the Gujarat plant in a phased manner. Yes, because we have acquired Andhra land and we have to see some progress on that in the next year. So our total expenditure as Mr. Niranjan told that is going to be Rs.2,500 in the next two years.



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Moderator: Thank you. Next question is from the line of Raghu Nandan from Emkay Global. Please go ahead.

Raghu Nandan: Just wanted to understand the effective tax rate for the full year in light of phasing out of an investment allowance and reduction in allowable deduction of R&D expenditure?

Niranjan Gupta: Presently, you have seen in the first half the effective tax rate is 29.47% which is slightly higher than the corresponding period. That mainly is because I can say R&D the benefit, in the past year, it was 200%, now it is 150% in the current year. So it is an annualized effect on the profits of the half year, but we are not going to see any major change in the percentage of effective tax for the full year. Depending on that actual CAPEX spends within the year.

Moderator: Thank you. We take the last question from the Pramod Kumar from Goldman Sachs. Please go ahead.

Pramod Kumar: My first question pertains to the export bit. We have seen broad-based recovery in exports for everyone from a player as large as Bajaj and a player like even TVS and Honda. For us in the first half at least the export momentum seems to be not that great as in we have barely kind of in the positive territory and we have a fairly favorable pace and a lot of markets which you have tapped up and you have established plans as well, just want to understand what exactly is it kind of the runway for exports from here on because the broad based recovery which we were waiting for which kind of hurt us in the last two years is kind of back now in the market?

Niranjan Gupta: On your macro basis, observation is correct, we can also see quite a few countries where the headwinds which were there, they are going away in some of the markets which augurs well for the entire industry. As far as our performance is concerned, while it would appear flat on year-on-year basis. But if you see, sequentially, we have been growing in our exports albeit at a lower rate. Moving forward and in this we have seen positive movement in some of the countries like Bangladesh and we are building up in other countries as well, in many countries, we are actually seeding and building up. We do see a positive momentum in the second half as we move forward.

Pramod Kumar: The last question is on the cash on the balance sheet, if you can just highlight, because there will be some investments in the associates and other bits, just clarifying what is the cash of cash equivalent?

Niranjan Gupta: That disclosure is also there in the published results.

Pramod Kumar: So it is exactly the same, there is no deviation?

Niranjan Gupta: No deviation.

Moderator: Thank you. Ladies and gentlemen, this was the last question for today. I would now like to hand over the floor to Mr. Khurana for his closing comments.



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Umang Khurana: Thank you everyone for joining in. Have a good rest of the day. Thank you Chirag and Edelweiss for hosting us. Have a good rest of the day everyone. Bye.

Moderator: Ladies and Gentlemen, on behalf of Edelweiss Securities that concludes this conference call. Thank you for joining us and you may now disconnect your lines.