



“Hero MotoCorp Q1 FY19 Conference Call”

July 25, 2018



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Moderator: Good Day, Ladies and Gentlemen, and a very warm welcome to the Q1 FY19 Results Conference Call of Hero MotoCorp, hosted by Emkay Global Financial Services. As a reminder, all participant lines will be in the listen-only mode. 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. Raghunandan NL – Research Analyst, Emkay Global. Thank you and over to you, sir.

Raghunandan NL: Good evening, everyone. I would like to welcome the management of Hero MotoCorp and thank them for giving us this opportunity. We have with us the management team. I would now like to hand it over to Mr. Umang Khurana – Head, Investor Relations to introduce the team and take the call forward. Over to you, sir.

Umang Khurana: Thank you, Raghu. Thank you for hosting us. Good day, everyone. It is a pleasure to have you on the call to discuss Q1 FY19 Results. From Hero we have with us today Mr. Niranjn Gupta – Chief Financial Officer; Mr. Sanjay Bhan – our Head of Sales and Aftersales, and Mr. Surender Chhabra – Vice President (Finance).

I would today like to take a few moments to introduce Mr. Bhan. As you know, he has taken over as head of sales and after sales and he will be aggregating and leveraging our entire customer facing businesses and services. A home grown leader, Mr. Bhan is someone who has risen from within the ranks of our strong talent pipeline. He has excelled in various roles in sales and marketing over the past 2.5 decades at Hero. He is also credited with setting up the rural vertical and heading marketing function before taking over as the Head of Parts business.

We will begin with first comments from the CFO – Mr. Gupta, as usual, and then open the line for questions. Over to you, Mr. Gupta.

Niranjn Gupta: Thanks, Umang. Thanks everyone for attending this Q1 call. By now you would have seen our results. Just to recap, the key highlights of the results are: first on volumes, we have delivered the highest ever quarterly volumes of 2.1 million. We have gained market share in the deluxe segment where we are already number one, further strengthening our leadership position. On the revenue side, you would have seen reported revenue growth of 10.4%, if you adjust for Haridwar GST accounting, the underlying revenue growth is 14.9% against 13.6%.

EBITDA margins for the quarter stand at 15.6%, this is despite significant increase in material costs. This reflects the resilience of our portfolio; our pricing power and dynamic spend management. Profit after tax of Rs. 909 crores, was impacted by an increase in effective tax rate, which as most of you know was due to the Haridwar income tax benefit which expired on 31st March, and has led to the increase in the effective tax rate. The underlying EBITDA margin delivery remained strong.



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We have taken a price increase in July to partially offset commodity cost, there are probably more expected in September, October. Sequentially, our two-wheeler average selling prices have gone up by Rs. 400.

These are the key highlights from the results.

Moving on, we continue to grow from strength to strength in motorcycle segment, building on the strong brands, extensive network and products that win the customer. As you would be aware, we are launching Xtreme 200R and 125cc scooters in time to catch the festive season. This will help us build our premium portfolio and also help us play in the growing 125cc scooter segment.

You would have also seen the electric scooter launch by Ather where we have significant investments. The launch has been received with a lot of excitement with pre-orders and feedback from test drives which are far exceeding their expectations. We will also continue to develop EV in parallel at HMCL, CIT which is progressing well. And you would have also seen that we are going to fund a bridge round for Ather amounting to Rs. 130 crores for their future funding needs.

Expanding global footprint with scale continues to be one of the key priorities for us. We have seen tremendous success in Bangladesh where in a short period of time we reached almost 30% of the market share in retail, in fact, number one position in the last two months. We are working on building scale in rest of the markets through multiple levers like right products, power, portfolio distribution and network, etc.

Coming back to domestic growth – we expect industry growth momentum to continue backed by both short-term as well as long-term factors like rural infra, MSP increase, monsoon, under-penetration which still is there, all these factors auger well for the industry. And, we at Hero are positioned well to capitalize on the growth through our portfolio and consistent strategy.

With this I open the Q&A session.

Moderator:

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

Kapil Singh:

I have a couple of questions. Firstly, wanted to check we have heard very aggressive comments from Bajaj Auto in particular regarding pricing, especially in the entry segment. And there has been some increase in volumes in the segment which CT100 operates. So, just wanted your thoughts on whether Hero wants to compete in that segment? Do you look at it as a market share loss for you? And how do you plan to respond to that? I mean, what I am trying to understand is: is this normal kind of competition that you have seen over the years or do you see significantly higher competitive intensity at this point of time? That would be my first question.



Secondly, I wanted to check on the average realizations per vehicle, both on a sequential basis as well as year-on-year basis we have seen a decline. I understand there is an effect of Haridwar incentive, but even if I adjust for that there seems to be a decline. So, if you can help us understand these two.

Niranjan Gupta:

So, let me answer the second question first, which is the average realization per vehicle on sequential. So, first of all, on a year-on-year basis as you know because of GST the comparison does not make sense, nor it gives any underlying price increases that we have taken. If you look at it on sequential basis, the revenue that you see is Rs. 8,564 crores as far as Q4 FY18 was concerned. And as far as Q1 is concerned it is Rs. 8,810 crores. Now, if you look at the past revenue, the spares revenue for the current quarter is Rs. 602 crores and the last quarter was Rs. 746 crores. Year-on-year, of course, parts have grown by 23% but Q4 is always a seasonal high for everyone in the industry, so that was Rs. 746 crores which was Rs. 602 crores in Q1-FY19. And the other operating revenue is Rs. 179 crores in the current quarter and in Q4 was Rs. 277 crores and that reduction is primarily on account of Haridwar which is around Rs. 60 crores – Rs. 70 crores and there are others which are more phasing issues. So, if you take out these then the underlying two-wheeler revenue, and if you divide them then you will figure out that the net increase is at Rs. 400 per vehicle. So, that is the answer to your second question.

As far as your first question is concerned, whether we will compete in the entry segment or not, there is absolutely no doubt. We have been, number one in entry segment, it is not that the price drops have happened now, the price differentials have remained for more than a year by now. In FY18 we gained shares close to 60% versus 55% FY17 and that talks about the strength of each of the product as far as the marketplace is concerned. With this, I hand it over to Sanjay to further elaborate on your answer on the entry segment.

Sanjay Bhan:

At the outset, I would like to state that we do not normally comment on what our competition is doing. For us brand is very core and brand building has been at the core of our strategy, which is why brand Hero today enjoys immense trust, loyalty and equity in the market, as you know. We have a solid franchise both in the entry and deluxe segments, backed by a strong dealership network. As the market expands it is only natural for it to get segmented. That is the case for entry, deluxe and the premium motorcycles basically coming into being. Each segment has its own differentiated product offering and we have been very successful through this strategy in not only protecting our number one position but also in enhancing market share in deluxe with strong brands such as Glamour and Passion.

Kapil Singh:

Understood sir. But what I am trying to understand is the competitive intensity, you think it has increased significantly or it is something that you have seen over the years?

Niranjan Gupta:

As I said, the price differentials have existed, a couple of products which are at the lower-end but the other products remain at the higher end, so it is not that the price differentials are new. And with these price differentials itself we have been growing, even our quarter one entry



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segment has grown more than 20%. So, we do not see this as a new thing that is coming. Probably there is one variant in the market which has come in new, but honestly in the overall portfolio we have been growing well with all the price differentials where each product has a place based to its features and price.

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

Jay Kale: Sir, my first question was regarding the kind of marketing spends and incentives that the industry is seeing. Do you see in the last 1 – 1.5 years there is a change in the company's strategy of offering incentives be it from above the line to below the line and maybe you all have kind of rationalized your spends from marketing to more of discounts. So, in effect, your marketing budgets remain the same and promotion budgets remain the same, but it is just that it is offered in a different form. Is that something that you have seen in the last 1 – 1.5 years?

Niranjan Gupta: Not really. If you see consistently we have been spending behind advertisement and publicity around 2.5% of the revenue. We have been spending both on ATL and the BTL, and even the media expenditure or discounts, of course from quarter-to-quarter these keep changing depending on the seasonality, depending on the season, the festive, etc. but there is no underlying change in the way that we actually invest behind the brands.

Jay Kale: And my second question was regarding your scooters and your premium motorcycles. Now, like the M1 segment is a weaker franchise for some other competitors, we have been trying to make inroads in the scooters and premium motorcycles. So, just wanted to get your strategy on how you plan to make inroads over there? And in the premium motorcycle, is there a thought of maybe setting up a different kind of distribution network to change the brand perception in the minds of people, is that a thought, say something like a Nexa?

Sanjay Bhan: See, Jay, first of all I would like to answer the second part of your question which is related to the network in terms of distribution do we have a plan to look at a separate set of dealers, etc, etc. I think the answer to that lies in the fact that our existing setup of dealers is doing extremely well as you know, it is one of the biggest strengths that Hero has. Not only do we have a very wide network of dealers, we also have perhaps the strongest network of dealers in terms of their capabilities, in terms of their influencing ability and the power that they exude in being able to convert customers and engage with them in a very meaningful way. So, right now we do not see a reason for us to depart from that, it is working out pretty much fine for us. Yes, of course, there are categories and areas and we will talk about that more a little later. But at this stage what is important that we need to look at this situation that we are in and how can we aggressively move forward on that. And one of the key things is that we need to have a greater participation in the overall scooter play area which currently with the range that we have we are playing in the 100cc, 110cc category, which if you notice in quarter one has not had a major growth. And the opportunity that we do see, which is also indicated by the numbers as they pan out is that the 125cc scooter seems to be on a growth trajectory, clearly indicating that the scooter consumers



really want to evolve and upgrade. As things stand basis our comprehensive line of plans, we are on the anvil, like Niranjan mentioned short while ago, we are on the verge of close to launching our 125cc scooter which is again going to help us participate in a very meaningful and constructive way in the scooter area. As a consequence, therefore it will have a huge play. And that is the reason that we are very confident as we go into the season that we will have a very strong play in the area which is probably growing the fastest.

Jay Kale:

And just on your other expenses, if you can explain why they would be down on a YoY basis? And also your industry growth outlook for FY19.

Niranjan Gupta:

So, on the other expense part of it, see quarter-to-quarter, the spends vary because of phasing and because we have dynamic spend management. So, effectively, it is not a representative thing in terms of one quarter or the other quarter, it is just the first quarter, and that is why you could see that in terms of absolute spend. In terms of percentages, of course the operating leverage also plays part as our volumes grow more than 7% - 8% the operating leverage starts kicking in, and that helps as far as ratio is concerned. As far as the industry growth is concerned, we have earlier also guided double-digit growth for the industry and all the factors which are there, you could talk about the short-term factors, the MSP increase which has happened, whether it is the money in the hands of people through release of all the center and state commission, whether it is monsoon which is a positive and also the rural infra and all that which is kicking in. So, essentially, we see this growth momentum for the industry to continue and we do expect a double-digit growth moving forward for the industry as well.

Moderator:

Thank you. We have the next question from the line of Karthik Chellappa from Buena Vista Fund Management. Please go ahead.

Karthik Chellappa:

My first question is, I know the 125cc scooter is something that you will be launching soon and that is a white space for you which would arithmetically improve your share. But based on the existing products itself what is your assessment of the reason why you have not been able to make much headway? Because it looks as if we tried various options, aggressive finance schemes, discounts, marketing, etc., but we have not been able to make much headway beyond the 12% - 13% share. So, what is your assessment or the reason for the same?

Niranjan Gupta:

Any action that you take on the product does not result in an effect in one quarter, two quarters or even one year. These things have to be built, ground-up slowly and gradually, which is what we have been doing. So, you are right in a sense that it has been hovering around 13% - 14%, but it had even gone down to 12%. From there the trajectory has moved up, it is actually maintaining a steady market share as far as the 110cc is concerned. There are a lot of actions which have been put in place over the last six months, we also elaborated in the last call, and that momentum is continuing on ground. And therefore, some of these actions will also start gradually yielding results. Having said that, let me just hand it over to Sanjay for further insight on the current products and how we are going to actually drive these.



- Sanjay Bhan:** So, Karthik, coming to the point on why we have not done as well as we were expected, etc., I think, like Niranjan mentioned, at the core is the brand from a marketing standpoint. As a strategy we have to work around the various support systems for the brand. Scooters, as a category, was something that we came into much later than most of the competition, so obviously it is going to take time. So, I would say that we still have the third largest selling brand in scooters, which is not way off, it is like I said once we start getting into a far larger participation within the scooter industry things could change rapidly. We do expect, and we do have a whole bunch of expectations and strategy in place with the new 125cc that we will be able to not just expand and participate but also expand industry base. So, I guess it will all fit in at the right time at the right spot. I am sure you have seen the numbers, the 125cc scooter has actually had a windfall gain, it is growing at a staggering pace of 80% plus in the first quarter. So, you can very well imagine, I think there is some amount of stranding if I were to use that term, for the typical 100cc – 110cc customers seeking kind of an upgrade. And that is precisely where we are going to get into. So, we do hope that in the coming times things will obviously look very-very up.
- Karthik Chellappa:** Sir, my second question is, what was the number of units that Hero FinCorp financed this quarter and what was that as a percentage of the overall units of Hero that we have financed?
- Niranjan Gupta:** Hero FinCorp financed 13% of the overall two-wheeler sales that we did. What was your other question?
- Karthik Chellappa:** I just want to know what was the absolute number of units that Hero FinCorp financed and what was that as a percentage of the overall two-wheelers of Hero that got financed?
- Niranjan Gupta:** 273,000.
- Karthik Chellappa:** And it was 13% of overall two-wheeler sales?
- Niranjan Gupta:** Yes.
- Moderator:** Thank you. Our next question is from the line of Raghunandan NL from Emkay Global. Please go ahead.
- Raghunandan NL:** Sir, can you please provide some trend on the rural and urban growth and by how much can rural growth outpace urban this year? And my second question was on Glamour, volumes slightly dipped where competition Honda Shine has seen a growth. How do you see this trend changing ahead?
- Niranjan Gupta:** What we have seen so far is that rural has been outpacing urban by around 200 to 300 basis point and we don't see that trend changing. So, we would expect therefore a similar differential as far as rural versus urban is concerned, moving forward as well. On the Glamour volume versus Shine, Sanjay?



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Sanjay Bhan:

Yes, just as input to what Niranjan just mentioned, I think the current situation is about 11% is what rural is growing and urban is growing at about 9%, just to give the numbers. And on Glamour versus Shine, I think all of us know that Hero has conceptually always believed in a multi-brand strategy, we just don't have Glamour, we have Super Splendor as well in 125, so I guess we need to see them together. And really speaking, if you look at 125cc play we are outgrowing the industry and we are driving the growth there. So, we look at it as a composite between the two players, from the deluxe segment you have the famous Splendor and Passion who as a tag-team obviously have always stood by us. We have a tag-team approach and multi-brand approach in 125cc as well and therefore are leading there. So, like I said earlier as well, we do not wish to comment really on competition and their strategies, our strategy is very clear, we will have a multi-pronged strategy in most of our categories and increasingly you will see that in other categories and other spaces, even the white spaces right now, you will see multi-brand approach from Hero.

Niranjan Gupta:

In fact, just to supplement what Sanjay is saying, our market share in the deluxe segment has moved up from 69.2% which was quarter one of last year to actually 70.6% which is quarter one of this year. That further elaborates on the multi-brand and composite strategy across each of the segment, entry, deluxe, etc.

Raghunandan NL:

Sir, impact of Haridwar tax benefit expiry you said was Rs. 60 crores – Rs. 70 crores. How do you see the ramp up in Halol plant offsetting part of this in coming quarters?

Niranjan Gupta:

So, as far as Halol is concerned, last year I think we did around 3 lakh volume from Halol, this year we expect Halol volumes to double. And then moving forward to move from 6 lakhs to 9 lakhs when it comes to next year onwards. So, part of those will get offset through Halol, and then thereafter Andhra comes in FY20 which is when the full neutralization happens. So, partly I would say through Halol and then partly through Andhra, so FY19 and FY20 put together then it offsets the Haridwar impact that you are seeing.

Raghunandan NL:

Just one last query, is the price hike taken so far sufficient to cover commodity inflation? You alluded to more price hikes in September, so just can you give some thought on how much of the commodity part has been passed on and how much more needs to be passed?

Niranjan Gupta:

So, what you see in quarter one is our raw material cost and you will have to do some accounting and some math to take out parts, material cost, etc., etc. But underlying basis our material cost is up by around 2.3%, that is what you see from the ratios. And effectively the price increase from April that we took offset 1%. So, still 1.3% of which partly was again taken up in July and then part will be taken in September, October. As far as commodity is concerned, it had gone up sharply in Q1 which we had also mentioned in the earlier calls. Quarter two we see still some impact coming but not as much as what you have seen in quarter one. And then thereafter we expect the commodities to stabilize. So, therefore when we talk of the prospective price increases in future, that should make up for the increase that has happened so far.



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

Sonal Gupta: Just clarifying on the raw material, when we are looking at these numbers this is just the full impact other than, because I guess there is some deflation because of Haridwar also, so that is also boosting the commodity cost as a percentage of sales. And just related to that, do we have some other expenses which have gone out because of Haridwar or something on a sequential basis? Just trying to understand that sequentially on the cost side what sort of impact would we have seen as a result of the Haridwar thing?

Niranjan Gupta: So, as far as material cost is concerned, if you look at it sequentially then there is no depression impact because of Haridwar because the GST accounting was changed from quarter two of last year itself whereby the entire GST was being netted off from the sales. So, therefore, when you look at the ratios there is no depressing impact as far as the ratios are concerned on a sequential basis. What was your second question, can you repeat again?

Sonal Gupta: The second part was other expenses, is there any impact?

Niranjan Gupta: No, sequentially there is no impact as far as that is concerned. Because Haridwar the benefit that you were getting in the GST regime had got converted into accounting into the other operating revenue stream, which is what I highlighted at the beginning of the call that that number has gone in this quarter sequentially which is impact of Haridwar. The rest of the expenses do not.

Sonal Gupta: And just through the Annual Report, Colombia has been making significant losses, so could you just highlight what is happening there and also what is your overall expectation for exports for this year?

Niranjan Gupta: So, in any venture that you get in or any business that you set up initial few years one would expect that you would not make profit, Bangladesh has been exceptional performance for us which I mentioned in the beginning of the call, and that actually made profits in the year one itself. But Colombia is following just like any other investment that you would do, we are building the brand there, we are building the market, we are building our scale there. And therefore you see the losses. All the elements that are required to ramp it up are there and have been put in and we will be gradually building in scale. And we do expect that gradually as far as bottom-line is concerned that should improve. But honestly, that is not so much of a concern in Colombia because we have set up a factory, and as the volumes ramp up the bottom-line will improve anyway. It is more about building the top-line and the scale which we will build. Once we achieve a certain scale then profits will start coming. Overall, global business has grown by 9% to 10% as far as quarter one is concerned. Bangladesh has been doing extremely well, we are gradually building the other markets. For the year we would expect around double-digit growth for global business and we are going to build up other markets like Sri Lanka, Nepal, Colombia, etc, learning from the Bangladesh market.



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

Binay Singh: Just going back to the gross profit, if you look at gross profit per unit it is almost a 14-quarter low, probably due to the commodity cost. But we also thought that this quarter scooter share would have been lower, so that could have been a positive. Going ahead, as scooter ramp ups how do you see the gross margins behaving, will you be aggressive in the scooter 125cc launch, will it be margin accretive or dilutive?

Niranjan Gupta: So, first of all let me answer the gross profit point of view, we don't actually drive the performance from GP point of view, we drive from the EBITDA point of view. As far as EBITDA is concerned, it is 15.6% because all the lines of the spend we manage dynamically, but it is really just one part of the line. And that is 15.6% which is again 16.2%, down 60 basis point and which is essentially what we have seen is material cost 200 basis points up, and the rest is managed through operating leverage and spends management and part of your price increase. So, that is on the profitability part of it. On the scooters part of it, scooters currently is just 13% to 14% of our portfolio and moving forward when we put 125cc which is intrinsically higher margin than the basic 110 entry segment scooter, so we actually do not see having a meaningful impact either way, positive or negative on our portfolio. The key is to actually build a scooter portfolio and participate in the segment which is growing high. And of course, any growth then brings operating leverage. But as I said, right now it would not be meaningful on margins either way.

Binay Singh: And secondly, while you did allude to the fact that the competitive intensity wise we do not see a change, but your competitor Bajaj's statements were pretty strong, in the sense they are targeting almost 800 basis point of market share with 400 basis point just in the next two quarters. So, how willing will Hero be to give away market share on the motor cycle side, would you be okay to give 200 – 300 basis point of market share and not participate in some of the pricing action that they have started, whether it is free insurance given this month or some kind of price correction across model, so how willing will you be to sort of give away 200 – 300 basis point of market share?

Niranjan Gupta: So, let me try and answer it. Although we have answered at the start of the call itself, the price differentials have remained now for more than a year in the entry segment that we are talking about. And over this one year where the pricing differentials have remained, so while we will not comment on any competition statement, but I am just stating certain facts. With the price differentials remaining there over a year in the market we have gained share in the entry segment from 55% to 60%, FY18 versus FY17. Quarter one is one which you look at which is at 58.5% and quarterly these shares can fluctuate. Then comes the deluxe segment where we have actually increased our market share on the back of the number one leadership position. So, honestly, and pricing is never a sustainable strategy to gain market share. Sanjay has already pointed out, there are so many other elements that work in order to gain the heart of the customer and the market



share. And our strategy is playing out well, and therefore we do not see a loss of market share happening in the first place. So, the question of actually trying to make it up does not arise.

Binay Singh: So, in a way you do not really see market share loss possibility scenario itself, so you cannot really comment on that. And lastly, what will be your tax rate guidance for the year?

Niranjan Gupta: So, for the year we do not give a tax rate guidance, but honestly quarter one includes the Haridwar effect, broadly. So, it would broadly be in this range is what I could say. There would obviously be some plus/ minus happening based on the depreciation and based on the R&D expense, all that you know. So, that would vary a bit, but broadly as far as the key impact is concerned, that is factored into quarter one, because that is a sequential change which has happened, which is expiry of the Haridwar fiscal benefits which was known to the market already.

Moderator: Thank you. Our next question is from the line of Kumar Rakesh from BNP Paribas. Please go ahead.

Kumar Rakesh: My question was, your portfolio if you look at it, it is pretty concentrated in few cc segment currently. You have tried diversifying it through launch of new scooter products in 110cc, you also had talked about expanding into international markets. But we could not see major movement in those areas. So, taking a couple of steps back in the more medium-term scenario how do you see diversifying your portfolio beyond where you are currently concentrated, or you are happy with the kind of concentration which you currently have?

Niranjan Gupta: So, we have actually talked about this earlier as well, yes right now as you see the portfolio is concentrated, but there are actions which are in place. Firstly, on the scooters on the existing portfolio we have talked about there are key actions which have gone into the ground and gradually you will see improvement as far as moving forward is concerned. 125cc Sanjay has talked about already, which will come into play, and that allows us play into the growing segment. And beyond that what we alluded was that it will also have a positive rub off impact on the current portfolio of the scooter. In the premium segment we have already announced the launch of Xtreme 200 which is coming in the festive season, and thereafter more products will follow. As far as our focus is concerned, answer to your question, are you happy with concentration? Nobody would be. Are you taking action? Yes, we are. Will you see the result? Yes. And you will see the result in terms of the products which are coming to the ground. And the result of those products obviously will build up gradually. More and more resources are focused on scooter and on premium sector. The focus of our CIT is also building into premium portfolio and you will see more launches coming every year.

Sanjay Bhan: I will just add one little dimension to this whole piece. When Niranjan was checking on whether we would want to be concentrated versus more diversified, I think intuitively the answer is, of course anybody would want to have a slightly more diversified portfolio. But look at the flip side, the very fact that we are so concentrated, has also put us in a very strong position that it is



almost kind of a bastion which is almost impregnable for most people, it is an extremely massive strength area. The deal here is that the two segments that you perhaps are alluding to which we don't seem to be diversified are now the growing segments within the industry, the scooters which is growing faster and so on, and within motor cycles it is the premium segment which is growing at a faster pace. So, perhaps your question is pointed to that. The answer is very simple, we have kind of answered earlier as well, I am going to repeat myself. The answer is, yes of course, in scooters we are getting into the fastest growing category. And with the kind of line up we have in place I am sure you will be as excited as our customers with what we are going to offer to them. And as far as the premium bikes are concerned, the Xtreme 200 is already launched, is getting launched nationally maybe very shortly, and we do hope to energize the portfolio. So, really speaking, our portfolio is going to get a massive leg up and strength over next two to three months as it will kind of unravel itself, and you will see far greater level and deeper level of participation. Which therefore gives us a leverage in the so called not so participant segments also actively kind of paying back in terms of customer engagement for us. So, I would see a pretty strong scenario building for us.

Kumar Rakesh: My next question was on the recently called strike by the transporters in India, are you seeing any impact in moving around your inventory?

Niranjan Gupta: So, far, no. Production has continued. In fact, we are also expediting things like air-freighting some of the materials in order to continue. We are watching the situation very closely like every other industry player and we will have to just track it and see, we hope for a quick resolution, but so far, no impact we have seen.

Moderator: Thank you. Our next question is from the line of Aditya Makharia from Motilal Oswal Asset Management. Please go ahead.

Aditya Makharia: Just wanted to check on the braking regulation which are expected, could you just give the timelines and any possible cost implication?

Niranjan Gupta: The ABS that you are talking about?

Aditya Makharia: Yes, ABS and CBS, yes.

Niranjan Gupta: So, these actually come into operation from 1st of April 2019 for the existing products and they came into operation 1st of April this year for new launches. So, we are in a ready state for this and all our new products are going to be compliant with these braking regulations. And our existing portfolio will migrate before the 1st of April. And our Xtreme 200R which is getting nationally launched is actually ABS compliant and we have decided not to put in the other variant, it is ABS compliant variant that we will be putting in. And all the existing products will migrate well before 1st of April, which is the regulation deadline.

Aditya M: And just in terms of cost, how much higher would it be?



- Niranjan Gupta:** As far as CBS is concerned, we had told earlier also, it is in range of around Rs. 500 per vehicle. And as far as ABS is concerned which is applied to the higher cc bikes, that would be in the range of close to around Rs.4,000 per vehicle.
- Moderator:** Thank you. Our next question is from the line of Ruchit Mehta from SBI Mutual Fund. Please go ahead.
- Ruchit Mehta:** Just a question on your Ather investment, are you the only investor in this Series C or are there others also in this? And when do these actually get converted?
- Niranjan Gupta:** So, as far as the current bridge round is concerned, we are the only investor. So, we have gone ahead and done the bridge round, typically bridge round happens with one investor. And thereafter it will be followed with a Series C funding round where also we will participate. And once the Series C funding round happens that is when it will get converted.
- Ruchit Mehta:** So, will you be open to taking your stake to near majority level, you are only at about 32% - 33% level?
- Niranjan Gupta:** So, while I would not comment on the majority part, but by virtue of the fact that this is a bridge round and we will also participate in the next funding round, obviously the share will go up, the holding will go up from where we are currently. But that will all be dependent on the next round valuation and next round participation. But given that we are the only investor in the bridge round and we will participate in the next round, the shareholding will go up from the current year.
- Moderator:** Thank you. Our next question is from the line of Aryn Pirani from Deutsche Bank. Please go ahead.
- Aryn Pirani:** Actually my first question is, there has been some news that in West Bengal which is around 5% of the industry market, there have been some new registration norms especially for two-wheelers which have actually lead to significant decline in retail volumes over the last one month. So, my question is, have you seen that in your dealership and is there a delay in dispatches to that market for you or are things usual and normal?
- Sanjay Bhan:** Yes, I think this is absolutely relevant, in fact West Bengal for now almost about two weeks has been struggling with that challenge. There is already work afoot; SIAM is involved in this because obviously the rule, for everybody's clarity, is that every two-wheeler customer needs to have a valid driving license to be able to buy one. Which is what is not consistent with the CMVR and therefore this has put a bit of a spanner, retails have been a little slow. It has not impacted our dispatches yet, because our pipeline is obviously quite strong, and it has not impacted dispatches as much. But retails of course have been extremely slow because we are compliant. So, hopefully, we do expect resolution very soon on this. Like you mentioned, West Bengal as a state has an overall issue, nowhere else is this problem there.



- Amyr Pirani:** And just to go back to the issue of the other expenses, we are seeing an absolute decline on an absolute basis. So, is it just shifting of cost from one quarter to another based on certain requirements or is this the new run rate, I mean is there a structural cost cutting or rationalization that has happened and hence we should expect this to be the trend going forward?
- Niranjan Gupta:** Actually, on a one quarter basis you cannot outline the whole trend. It does include part initiative of cost management, but also has a saving thing involved. So, we will have to look on an annual basis, but we very conscious of our spends management and we keep doing that on dynamic basis. But you cannot drive a conclusion based on one cost.
- Amyr Pirani:** And just lastly, the benefits that you get from Halol and will eventually get from AP, do they get accounted for in the revenue line itself or is there some other line item where they would get accounted for?
- Niranjan Gupta:** No, the way you see it gets accounted from the revenue from operations line itself. Within that there is a sales revenue and other operating revenue which you see typically when you see the balance sheet and the detailed classifications. But from your published results what you see is accounted in the revenue from operations line.
- Amyr Pirani:** So, the Halol benefits are already there in the published numbers on the revenue side?
- Niranjan Gupta:** Yes, to the extent of the current volume, the benefits will go up as the volume ramp up.
- Moderator:** Thank you. Our next question is from the line of Jinesh Gandhi from Motilal Oswal Securities. Please go ahead.
- Jinesh Gandhi:** Continuing on this Halol plant benefit, can you tell what kind of benefit did we get in FY18?
- Niranjan Gupta:** I would not quantify the amount, basically the benefit that we get is the refund of SGST for local sales.
- Jinesh Gandhi:** Even at 900,000 level it would not be offsetting totally the Haridwar loss, right?
- Niranjan Gupta:** No, it would not, that is what I said that it is a combination of Halol and AP that will neutralize the Haridwar and not just standalone just Halol.
- Jinesh Gandhi:** Second question pertains to scooterization, so Mr. Bhan can add over here. In last few months we have seen substantial slowdown on the scooter sales, what can you attribute this slowdown to and is it a structural change or how do you read that?
- Niranjan Gupta:** So, on scooterization and Q1 slower growth, I will give it to Sanjay. But before that on your Halol thing you mentioned 900k, the 900k is not this year's number, last year we did 300,000 and this year we will ramp up to 600,000. And then thereafter it will get ramped up to 900,000



just for an added clarification. Sanjay, you can answer on the slower growth of scooter in quarter one and the trend that you see.

Sanjay Bhan:

Yes, I think there are various factors that you must look at, intuitively it does seem like scooters have had a rather flattish quarter, but you must also see that in the larger perspective on what happened in quarter one last year. I think there was a huge opportunity in the scooters owing to BSIII to BSIV conversion, you would recall that there was a whole bunch of stuff that happened on 31st of March where the large players in scooters obviously had to offload a lot of stocks at special prices, may I say. And as a consequence, the pipeline was cleared up and therefore there was a huge opportunity of stock build up caught over last year. So, I would put a bit of caution there for all those who are imagining that perhaps scooter will slowdown. Although that really is in some sense interesting, but it really may not be the case. As we see currently it could be a base effect because last year first quarter was very high, this year first quarter related to that is not looking so good. But what is important I think that where I would like to, I have already spoken about it earlier, but there is one specific trend in scooters that is something that I would like to mention here again for the benefit of everyone, is that within scooters the growth is not happening in the 100cc – 110cc, the entire growth virtually is being fueled by the 125cc scooters. And that is the larger point because that is where we are getting to, and soon enough and hopefully that will allow us a huge amount of headway and obviously massive tailwind for us to get our numbers from.

Jinesh Gandhi:

And my last question pertains to our inventory, so what would be the level of inventory at the ground level now?

Niranjan Gupta:

We continue to maintain an inventory of around 4 to 6 weeks and that is where we are, as we move forward obviously the inventory will get built up in this quarter for the festive season before the festive retail happens. So, in all I think it is important to understand there is good inventory and there is bad inventory, inventory going up as you go into the season is absolutely good, inventory going up when the season is low is not a great idea and we are very conscious about that. So, right now we are operating anything oscillating between four to six weeks depending on which zone and the distance from our plant. But as we get into the season we would like to ramp it up to maximize the benefit from the season, and we do expect a very bumper season this time around, which we do every year. So, as we move forward in quarter two the inventory gets built up.

Jinesh Gandhi:

And lastly if I may, this bridge round investing in Ather, what it will mean to our stake now after this happens?

Niranjan Gupta:

So, the bridge round investment in Ather, currently the stake cannot be determined because this is a bridge around funding. The stake will get determined when the next Series C round funding happens and then everyone participates. So, whatever is the valuation at that point in time then of course the conversion of this current bridge round happens. So, the stake increase will get



determined only after the next funding round and not now, though it will lead to increase in the stakes.

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

Hitesh Goel: Sir, just wanted to understand what is the share of 125cc scooter in the overall scooter market? And second, you said that 125cc scooter margin will be higher than your 110cc scooter, at what volumes are we talking about these margins will be similar?

Niranjan Gupta: So, I will respond to the margin part and on 125cc share of the total scooter that we will respond shortly. As far as the margin part is concerned, as I said that on 125cc you would expect the underlying margins to be higher than the basic segment which is 100cc - 110cc scooter. I would not give out the number but underlying margins on that segment are higher. I have said that for our portfolio given that our portfolio of scooter itself is 14% to 15%, therefore it does not make a meaningful difference to our margin either way. But fundamentally, the margins of 125cc would be higher than the 100cc – 110cc. On the ratio of 125cc segment to the overall, Sanjay can respond.

Sanjay Bhan: Yes, the current levels that it has gone up to about 21%, so that is a large volume, it is about 120,000 plus on roughly 600,000 total base.

Hitesh Goel: What was this number in FY18 and FY17, can we get the number?

Sanjay Bhan: In terms of contribution it has gone up by about 4%.

Niranjan Gupta: So, around 15% - 16% would be the earlier number, now 20% because the entire growth or most of the growth is coming from 125cc.

Hitesh Goel: And my third question is basically on other expenses, so you said other expenses will be lumpy in the quarter, just wanted to understand, even if your volumes grow in double-digits this year will other expenses decline on a YoY basis, how should we build it up, is it kind of budgeting you are doing for this year?

Niranjan Gupta: No, so I have not said it will decline on a YoY basis, I made two, three statements on the other expense. Number one, you cannot go by a quarter because the quarter wise expense trends are different, spends are different. Second, I have said that when the volume grows beyond 7% - 8% then you start getting the operating leverage because obviously you will not expect your other expenses to grow beyond 7% - 8% on a year-on-year basis, that has been the history to take out, take the inflation and plus some other factor or variable. So, that is how it will pan out as we expect moving forward.

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



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Pramod Amte: A couple of questions, one, with regards to the Hero Sure which you have launched towards the used-bike market, do you see any value proposition post GST because you and even the competition has launched a similar program. And might be in three-years, five years down the line how do you expect this to contribute to your overall sales proportion?

Niranjan Gupta: You are talking about the used two-wheeler business which...

Pramod Amte: The initiative which you explained in the Annual Report.

Sanjay Bhan: As you know "Sure" is not something new, of course trading business in this country, there are some very established players as you would know. And we also started "Sure" long time back, almost about a decade and a half back. But there were headwinds in terms of the overall taxation regime, etc, which prevented us from going all out. But with the GST in place now the environment is very conducive, and we have already started over about 100 outlets of Hero Sure, we do see that as an opportunity because a lot of our own customers want to upgrade, they want to exchange, they want a fair deal. And not just our own customers who want to upgrade to newer models but also people out there in the market who want to buy from sources that are genuine and also have the flexibility of getting those bikes reconditioned in some form. So, we do see a lot of upside there. It has already started off, Tamil Nadu for instance is one state where we are doing extremely well, we have got very good response from Tamil Nadu and Gujarat, these are the two states where we focus ourselves on and both states the numbers are looking quite decent. And it is quite encouraging actually, and we hope to open up soon in other markets, pilots right now are currently going on and the response is exceptional.

Pramod Amte: And second with regards to the exports, Africa as a market seems to be coming back in a big way and you did mid-course correction on your export strategy where initially targeted Africa which went down and now it seems to be coming back in a way. So, in that context compared to your low base and what is your competition is doing, your target of 20% looks to be very sober. So, are you planning to go aggressively into that market to do product launches there, to take a big leap into those markets as exports or you want to do a more medium-term strategy of having your manufacturing bases in many places?

Niranjan Gupta: No, so it would not be manufacturing bases in many places, so that would not be strategy. Manufacturing is only where we see or where there is a scale which can support the manufacturing base. And as we achieve that scale surely, we will setup the manufacturing base. As far as focus on Africa is there, it is right up there on our radar. Our growth target, our ambition is that we would have said that may look sober. We have said double-digit, we have not said 20% and double-digit could mean anyway, on a lighter note, from 10% to 99%. But having said that, we are going to build the scale. On the Africa market there are certain markets where you require certain specific products, like Nigeria is a more taxi market which requires a certain kind of product and those variants also we are developing in parallel and they will also be getting launched soon in those markets. So, we are seized off this specific product requirements of the



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Africa market and work is happening on that, it is just that we did not highlight that on the call because we are building each of these markets up and each market has a different need which we are addressing.

Moderator: Thank you. Our next question is from the line of Basudev Banerjee from Ambit Capital. Please go ahead.

Basudev Bannerjee: One is, as you were mentioning the pricing differential has been maintained and you have gained market share in the entry segment. And secondly, price cut led strategy is not sustainable in terms of demand and elasticity beyond a point. But if the differential widens will you continue to maintain the differential, or you will let the differential widen and assume market share to be retained?

Niranjan Gupta: So far, with such a big differential we have not seen a dent in the market share. Our strategy stays consistent which is actually brand building and not brand discounting. And we would rather feature up and price up, and actually that pays more from the customer point of view in terms market share and winning customers rather than feature down and price down. So, we have seen even with wider differentials, forget our products, you know the other products in the market as well where there would be a lead and there are price differential and on price difference alone we do not see this market and this segment actually reacting and giving it.

Basudev Bannerjee: Second thing, one word we have been missing for long in this call is LEAP Program, so has the benefit of LEAP Program peaked out or still we are seeing some incremental benefits or scope left as the other expenses were also on the lower side this time?

Niranjan Gupta: We still do see some benefits, although I would say not to the extent of the benefit which we reaped earlier. And therefore around 50 – 60 basis point was the benefit that we were seeing earlier, probably it is more around 30 – 40 basis point now as we see. But we do see moving forward lot of leverage available to us in the fixed cost area and gradually you will probably see that coming through.

Basudev Bannerjee: And last one, as you rightly said that 125cc scooter segment is growing at a much faster pace which is some 20% - 25% of the market, if one sees not even on a year-on-year basis but on a six months average basis, i.e. current six months compared to the preceding six months, overall scooter market has been flat. And if one adjusts for this superlative growth of 125cc scooters it implies 110cc scooters are in a decline mode even compared to second half of fiscal 2018. So, any explanation on that, sir?

Sanjay Bhan: Yes. So, it is a good news that the customers want to upgrade, and that goes back to also your previous question that customers actually do not downgrade to the lower price thing but actually they want to upgrade, since they wish to upgrade it is for us and the industry to offer them the right product. So, it is a good news for everyone that people upgrade to 125cc, it is a scooter



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segment, when it grows from 110cc to 125cc everyone will be in a happy place. And specially us as we are going to launch the 125cc scooter that we have spoken about.

Moderator: Thank you. Our next question is from the line of Arvind Sharma from Citi. Please go ahead.

Jamshed Dadabhoy: Just a couple of questions actually. So, just want to ask that when you think about your 125cc scooter and the Xtreme, for those products how are you all planning to sort of differentiate in the segment and how will the dealerships attract that sort of target customer who wants to buy premium bikes and higher power scooters? My second question is, what percent of your sales today are brought on exchange and the bikes? How many of those are Hero bikes versus competitor bikes? If you all have that stat.

Sanjay Bhan: I will answer this question sequentially. The answer to the first part of the question that how does the 125cc stay differentiated from the 100cc, 110cc that we are currently offering to customers? I think I will go back to the core that Hero philosophy is all about, which is about bringing in adequate and more for a customer to evolve. And I think we have laid that out as a part of our core philosophy that we need to ensure that our own customers when they want to upgrade and move on and we must have that process of evolution. A case in point is the 125cc in bikes where it became a major enabler for our own 100cc customers before we started looking at competition to help them evolve to the next category. So, I think the process is very apparent now from the way industry is moving. It is very obvious that customers in 110cc are looking at better features. Perhaps a little more with the power that they are getting and the performance that they are seeking from the current 100cc – 110cc category. And therefore, we are, if anything, providing them with an outlet to move and upgrade to the next level. So, to that extent the differentiation is absolutely clear and very distinct, and we see no reason why there should not be enough and more for the customers to move towards. And as the industry is supporting it currently, it seems like a trend and our own line up was perfectly timed to kind of take the full benefit and ensure that we are able to provide that latitude and that particular evolution for our own customers. So, that is as far as the first point is concerned.

I think the second question really was what percentage of our current retails is also being exchanged. The number is roughly about 9.5% to 10%, it kind of keeps oscillating across months. In leaner months because that is a lot of ground level, impact level activation idea, so in the leaner months the numbers could probably go to about 10% - 11% and in the months when cash sales are far more rampant, high season months, these numbers could be slightly lower. But the number roughly is about 10%.

Jamshed Dadabhoy: Just a follow-up on the first question, do you expect any sort of cannibalization between your current scooter portfolio and the new 125s?

Sanjay Bhan: Cannibalization, as the term might sound very cannibalistic but frankly that is part of the game, I guess to an extent some amount of rub-off, on the contrary the other thing is also very equally important and relevant. We do expect that the moment you get new energy into the showroom



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it will have a significant positive rub-off in the current range. So, I think we are very distinctly trying to position this in a sharp distinct manner which will ensure that the cannibalization impact is the least. But that is a reality that across category we have seen it does happen, it does have a role to play. But if your positioning is very sharp, is very precise you clearly minimize that and the fact that you may also be able to get the rub-off benefit on the existing range will more than compensate for any internal movement of brands.

Niranjan Gupta:

And to build on Sanjay's point, given that we are at 13% - 14% market share, for us it is more likely to be incremental and more positive impact than if we were at 40% - 50% market share, in which case the cannibalization would have affected.

Moderator:

Thank you very much. Ladies & gentlemen, due to time constraints that was the last question. I now hand the conference over to the management for their closing comments.

Umang Khurana:

Thank you, everyone, for coming on the call. And thank you for your enthusiastic questions. I think we have quite a lot of questions that you still wanted to ask. Phone lines are open, we will take your questions one-on-one right after this. Thank you, Raghu, thank you Emkay. We will connect again in person.

Moderator:

Thank you very much. Ladies & gentlemen, on behalf of Emkay Global Financial Services, that concludes this conference call for today. Thank you for joining us. And you may now disconnect your lines.