



“Hero MotoCorp Limited Q3 FY2017  
Earnings Conference Call”

**February 09, 2017**



**ANALYST:**

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**MANAGEMENT:**

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February 09, 2017*

**Moderator:** Good morning ladies and gentlemen, Welcome to the Hero MotoCorp Limited Q3 FY2017 Results Conference Call hosted by Nirmal Bang Institutional Equities Private Limited. Please note the duration of this call is for 45 minutes only. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing '\*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Rahul Arora from Nirmal Bang. Thank you and over to you, sir.

**Rahul Arora:** Thank you. Good morning and a warm welcome to everyone on the call I would like to extend my gratitude to the management of Hero MotoCorp for allowing us to host this call and on behalf of Nirmal Bang Equities, I would like to welcome all the analysts and investors on this call to discuss the third quarter FY2017 results.

The management will be represented by Mr. Ravi Sud, Senior Vice President and Chief Financial Officer, Mr. Ashok Bhasin, Head of Sales, Marketing and Customer Care, Mr. Surender Chhabra – Vice President, Corporate Finance and Mr. Umang Khurana, Head of Investor Relations.

I request the management to make some opening comments if any on the results announced last evening and thereafter we can open it up for question and answers and just a quick note to Mr. Sud before that wish you all the very best sir it has been a pleasure interacting with you since this is your last call as the CFO. I hope to continue to be in touch and wish you all the very best. With that I hand it over to the management.

**Umang Khurana:** Thank you Rahul for hosting us. Welcome everybody on the call, Rahul has already spoken about Mr. Ashok Bhasin who is on the call as is Mr. Sud. Unfortunately Mr. Chhabra has got something to attend to at his end and is not here. We will do this call for 45 minutes, but before we begin I think it is most important that we talk about the 19 years that Mr. Sud spent with us.

The company has gone from 1500 Crores I was checking with him to 30,000 Crores so while Ashok did ask me to do a CAGR I did not do it for us. It is amazing where we have been, he has been the best CFO in the country for many years in succession. We have been very fortunate to have been led by him and eternally grateful and would look forward to his guidance as we go along.

That said, we want to begin this with the first set of question and answers so we can go now begin.

**Moderator:** Thank you. Ladies and gentlemen we will now begin the question and answer session. We will take the first question from the line of Kapil Singh from Nomura. Please go ahead.

**Kapil Singh:** Hi Mr. Sud firstly wishes you all the best, great set of results. I just wanted to understand on the raw material cost if you could help us understand how we saw such a sharp decline if you could break it down in terms of various factors that influenced it.

**Ravi Sud:** First of all, thanks a lot. On many calls Kapil you know this company very well we work with a lag, particularly on the various commodities we work with a lag of either one quarter or half year, on steel we work with a lag of six months. So the material cost if you see in quarter three is basically the weighted average of H1 and you know the steel prices and other commodities started going down and from March 2016, so April, May, June, July, August, September if you see the prices just kept on going down, down, down. So, hence the material cost in the quarter three is low, but quarter three onwards the prices have started going up and the steel at least has gone up by anyway between 20% and 25%, aluminum has gone up from \$1600 to about \$1800, I think that impact you will see partly where we depending on how we negotiate with our vendors because the increase have been so steep some of the vendors may be impacted in their working capital to purchase at a 25% or 20% high and getting only 100 against average of H1. So it is possible that part of this increase we may have to give effective fourth quarter that is effective for January.

**Kapil Singh:** That is helpful. And, Sir secondly I wanted to check on retail growth now, have we started seeing positive momentum now and now that cash availability is largely returned to normal level and any growth outlook you guys have and a related issue is we are also seeing changeover from BS-III to BS-IV so if you can update on that as well and whether in your opinion BS-III bikes which are left over they can be registered after 1st of April.

**Ashok Bhasin:** Hi good morning this is Ashok, let me speak to your first question on the growth. So we all know that November and December scooter and motorcycle decline was almost 15% there was some growth in moped, but overall motorcycle and scooter was declined by 15%. Things were better in January, better does not mean the industry grew, the industry actually had a decline in the month of January as well and in fact motorcycle and scooter decline was almost 8% to 9% so things are improving gradually, but right up to January there was a decline, we anticipate February and March the growth in the business will be better probably close to flat and then going from there would get into the next fiscal first quarter of where we expect further improvement.

As far as the BS-III, BS-IV question is concerned. Our understanding is that the notification expects no manufacturing of goods after March 31, 2017 the BS-III and we are well prepared and we will be fully compliant with that. Clearly the industry will have stocks manufactured before March 31, 2017 at various links in the inventory chain and those will have to continue to get retailed and registered as they sell in the period after March 31, 2017 as well.

**Kapil Singh:** Thanks a lot.



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**Moderator:** Thank you. We will take the next question from the line of Ashutosh Tiwari from Equirus. Please go ahead.

**Ashutosh Tiwari:** Sir my question is on the demonetization how do you see this that on region wise basis, are you seeing in some pockets still taking a longer time to recover.

**Ashok Bhasin:** The demonetization slowdown impacted the entire country in terms of demand so the steep decline of 15% for motorcycle and scooter in November and December and January, yes they at such a large number because the entire country had demand contraction due to several reasons that came with the demonetization, what I would say is that after that when the recovery has begun, where the declines have come down and some growth is coming parts of the country that are recovering better are some parts in North and some parts in South, so states like parts of UP, part of Delhi those are recovering better and some parts of south as well whereas certain parts of south as well as in the west the market is slower to recover, there is an improvement but the degree of improvement is much less than the latter part of the markets that I mentioned.

**Ashutosh Tiwari:** And Sir what about the inventory levels in the system with the dealers and all, how much that would be.

**Ashok Bhasin:** Inventory level for Hero MotoCrop.

**Ashutosh Tiwari:** Yes.

**Ashok Bhasin:** Those would be between six to seven weeks.

**Ashutosh Tiwari:** Have you taken any price increase recently?

**Ashok Bhasin:** We have taken some price increase in January.

**Ashutosh Tiwari:** Okay sir thanks a lot and all the best to Mr. Sud.

**Umang Khurana:** Sir considering there is going to be a little short of time may I request that we keep to two questions we will come back to you once we are done.

**Moderator:** Thank you. We will take the next question from the line of Jay Kale from Elara Capital. Please go ahead.

**Jay Kale:** Thanks for taking my question sir and all the best to Mr. Sud for his future interval. My first question was regarding our lead program so if you can just quantify what is the contribution from the lead program and if I have just to go back in history somewhere in FY2014 we had talked about around

300 basis points margin expansion driven by lead program as well so from there we have gone from 14% to 17% of course that has been helped also because of benign raw material prices in this period. So now that we are here how would you see the way forward for the lead program, have most of the benefits that we had talked about say three years back come in or how much scope do we have over there.

**Ravi Sud:** Let me first give you the figures FY2014 we added 169 Crores, FY2015 we added 329 Crores, FY2016 we added 283 Crores and FY2017 till January we have added 192 Crores. Now if you look at the cumulative savings what one idea that we implemented in 2015 they did a carry forward, the total addition to the bottom-line because of this program so far till January as well about 2600 Crores and effective January we have added 192 Crores, we should be crossing about 250, 255 Crores that is for FY2017 and I stated in one of the earlier calls I think it was Q1 that we should add about 80 to 90 basis points and we are well on track. Now going forward yes I agree with you the number of ideas which were generated and number of new ideas which are coming up are shrinking and FY2018 we expect this program still to add about 50 to 60 basis points but that is not the end we are looking at some other initiatives which might give us additional 25 to 30 basis points in FY18 or so.

**Jay Kale:** There is still scope. Sir my last question of course was on the retail demand the kind of lower rate of decline that we are seeing has it got to do with some pent-up demand which was there in say November, December which has come back or maybe how are you seeing the pent-up demand, are you accounting it for us loss sales or you expect that to come back going forward as well added to that incremental growth that we expect.

**Ashok Bhasin:** I think it is a mix bag so some of the demand would stay pent-up at the time period in which it will come back and how other external environment factors play up will determine whether it was pent-up which came back into the market or it just got deferred for a reasonably long period of time. So part of it is reflected in the improvements in January but January, March industry is still -9% so it is still not at the level of last year January. Secondly some of this is malady or marriages etc., will help in the coming months and I think those consumers who have a stronger reason to procure today will go out and consume obviously facilitated with several actions, mitigating actions that we as a company and as a market leader have taken during this period to drive the cashless economy and that is what is happening the recovery I think we are right at the front and back in terms of driving that change in the public place and facilitating it both for the consumers and our trade partners.

**Jay Kale:** Great thanks a lot and all the best to Mr. Ravi Sud.

**Moderator:** Thank you. We will take the next question from the line of Karthik Chellappa from Buena Vista Funds. Please go ahead.

**Karthik Chellappa:** Thank you very much for the opportunity and at the outset my best wishes to Mr. Sud. Sir two questions from my side firstly on our scooter market share which has taken a little bit of a beating year to date and if I just look at the data it seems that we have lost the maximum amount of market share so what is your strategy for gaining back that share and what is your assessment of the reason for us being the biggest loser of market share in the first nine months and my second question is what was the number of units that was financed in third quarter and what portion of that was financed by Hero FinCrop and has that ratio changed materially quarter-on-quarter.

**Ashok Bhasin:** Let me speak about scooter we are all at YTD basis running at an average market share as of January of about 14% plus percent and that is pretty much where we were probably five quarters ago before the launch of the new scooters we had gone down to a market share of about 11%, 12% so if you look on a long-term basis we have gained almost 350 basis points we anticipate that in the coming months as we transition from BS-III to BS-IV probably we will be able to pick up further and when we bring in the BS-IV scooters they will also have a significant positive impact on improving the market share because we will have some corresponding improvements in other aspects of the products as well. So we are on a growth path of scooter at the short-term of a month or two, I think it is certainly because we are also managing our inventory from a BS-III, BS-IV perspective but we are determined to make the growth in scooters not only in the balance of the quarter but the next fiscal and going beyond. As far as finance is concerned, the total finance ratio is running at about 38% now and Hero FinCorp pretty much stays at the same level but we believe that in the next three to four months that should increase further because the consumer is now adopting the new way of doing business but one thing that has significantly changed is while full adoption of finance has not happened but the usage of cheque and RTGS and NEFT transfers that has increased significantly during this period. Again we have done customer care centers, Grahak Shiksha, around the country, sales carnivals, working with the banking system and making it possible for the consumers because a lot of our customers are in tier III, tier IV towns so we are actually holding the consumer on the education and facilitation process so the first level of adoption that is coming is through the cheques and the NEFT, RTGS and I think the next level of the improvement that will come in is in the adoption of formal finance which will go up further, but this is a gradual process.

**Karthik Chellappa:** Sir just one follow-up on the observation on scooters so the new BS-IV launches will it also have additional features for all the three brands or would it just be a few of your or would it just be restricted to the new brands.

**Ashok Bhasin:** I cannot share the specifics because we will be rolling them out in the near-term and, we will give more details at the time of actual rollout into the market.

**Karthik Chellappa:** Okay. Got it. Thank you sir, thank you very much and wish you all the best.

- Ashok Bhasin:** And all our scooters will be BS-IV compliant, every single model.
- Moderator:** Thank you. We will take the next question from the line of Binay Singh from Morgan Stanley. Please go ahead.
- Binay Singh:** Hi team thanks for the opportunity, my first question is on other expenses typically we have seen... we have Tiger Woods and other publicity expenses rise pretty sharply in the December quarter, Sir could you comment a little about that, has the same thing played out into this quarter, we are into that around the 35 Crores or so has played out in this numbers.
- Ravi Sud:** Yes.
- Binay Singh:** And Sir what will be your ad spend as a percentage of sale now for this quarter.
- Ravi Sud:** You know it will be very difficult to give figures quarter-on-quarter basis. First ad spend is very low, at quarter two is medium, quarter three which is a festival season if it is high, so festival season gets covered in quarter three as well as certain important events, one of which you just mentioned, ad spend for the quarter will be high, the average for the year would be anything between 2.4 to 2.45 for the full year so ad spend in the third quarter could be about 3%.
- Binay Singh:** And Sir second question is on raw material cost I know like one of your competitor have highlighted that the pressure is almost Rs.800 to Rs.900 per unit and firstly are you also seeing a similar number and the price hike that you took in Jan what percentage of that are you able to offset.
- Ravi Sud:** Well you see in my first response to Kapil for the question he asked I said we work with the lag of six months so in quarter three the prices which you have seen basically they reflect your H1 average but in quarter three onwards the pressure has been very high as I stated earlier some of our major commodities like steel which constitute about 92 to 93 kg in a bike and aluminum which is about 14 kg, they have started going up very sharply, steel prices as I stated earlier had gone up anything between 20% to 25% so going forward I think quarter one and maybe partly in quarter four also we may see the impact, because we may have to accede to some of the vendors' request because the prices have gone up very, very steeply.
- Binay Singh:** And sir what is the price hike that you have taken.
- Ashok Bhasin:** The levels of between Rs.500 to Rs.1200, Rs.1500 that is how the margin that is how the January was.
- Binay Singh:** So is it offsetting the pressure that Mr. Sud is talking about?

- Ashok Bhasin:** Only partly because some of the price hikes also covered this BS-IV cost for the product which we started shipping in the month of December and January so it is very, very... I will say it is only partial.
- Binay Singh:** Thank you so much sir and best wishes for the future.
- Moderator:** Thank you. We will take the next question from the line of Chirag Shah from Edelweiss. Please go ahead.
- Chirag Shah:** Thanks for the opportunity and all the best Mr. Sud for future endeavors. Sir I have a question on demand outlook for next year and in terms of industry growth how are you looking it and what kind of pace you are looking at in terms of growth in first half or the second half.
- Ashok Bhasin:** Overall growth could be in good single digits, we would anticipate for the next year and it will be a gradual recovery process so I think the second half of the year would see better growth than the first half.
- Chirag Shah:** And if I can ask is there significant conservatism building because if we look at second half there is a huge favorable base now for us if demon is a temporary impact we should see a very strong volume come back so why this conservative guidance in terms of growth and what are you reading at ground level which makes it you go so conservative.
- Ashok Bhasin:** I do not think it is conservative we are saying good single digit growth better in second half than in first half.
- Chirag Shah:** And scooter can continue to outgrow motorcycles that trend can continue or you are seeing it a kind of reaching it saturation type of levels or how do you look at scooter growth in that.
- Ashok Bhasin:** We anticipate that our growth comes back it will come to both the segments.
- Chirag Shah:** Fair point and if you can also touch base on the export side some updates... any specific countries where you are making increasing headways or traction being seen because we are present in now maybe 33, 35 countries our presence has been developed.
- Ravi Sud:** Yes, we have presence in 35 countries but some are major markets let me just give you the update I think a couple of calls back or maybe last fiscal I have stated that the three important countries which we want to enter which are large markets one was Nigeria, second was Argentina, third was Mexico. And so far the status is we have already entered Nigeria but all of you know because of the dollar crisis in that country, market has shrunk, it is shrunk by more than 50% so we are doing a small number. As far as Argentina is concerned yes we have appointed a distributor and you would have

heard about launch of our distributor in Argentina in the month of January so we will start seeing the numbers in fiscal 2017-2018. As far as Mexico is concerned Mexico so far we have not been successful to get a distributor because of certain tensions between US and Mexico. As far as volumes are concerned. Well all the large global markets like Latin and Central America and Africa are facing very, very strong headwind. Apart from Nigeria, look at Angola this year our export will be I think zero because the country does not have any dollars so well as far as export market is concerned we are expanding but I think all these headwinds should subside over a period of time.

**Chirag Shah:** Fair point. Sir while export outlook looks hazy because of the macro issues if you can throw us some light on what kind of brand spend that you are doing over there. Of this overall 2.4%, 2.5% spend how much of that would be used for export initiatives, for building brand in those markets and over last two, three years what kind of spend we would have done over there.

**Ashok Bhasin:** Okay. When we say 2.4%, 2.5% this is the total ad spend. As far as out of this road brand spend is concerned, we have some brand ambassadors, recently we have appointed in Latin, there are certain events which we sponsor like Copa in 2015 we had sponsored in Colombia because Colombia where we have a joint venture but out of this 2.4%, 2.5% what percentage is it I think it will be very difficult for me to give the answer.

**Chirag Shah:** And like we can say 50, 60 Crores kind of spend would be happening to promote brands in international markets, it would be a right way of looking at it.

**Ashok Bhasin:** No I do not want to give you any figure.

**Moderator:** Thank you. We will take the next question from the line of Basudev Banerjee from Antique Finance. Please go ahead.

**Basudev Banerjee:** Congrats Sir for great set of numbers. A few questions sir I missed out what is the timeline of the excise benefit moving out of the Haridwar plant.

**Ashok Bhasin:** Another one year, March 31, 2018.

**Basudev Banerjee:** Pardon sir.

**Ashok Bhasin:** March 31, 2018.

**Basudev Banerjee:** Yes, so one more year. Sir broadly just trying to understand like the kind of price increase required for BS-IV transition, then the metal price inflation yet to get passed on, then the impact of this excise duty you have to pass on and alongside the CBS ABS transition so how do you see this mid end or the

lower end on Deluxe Splendor Passion market absorbing this huge quantum of price hike across this next 12 months, will demand remain elastic or there can be some dent to the psyche of the buyers.

**Ashok Bhasin:** As far as BS-III, BS-IV is concerned, I think on an average the impact would be somewhere around Rs.400 to Rs.500 for two wheeler vehicle, if we expect that would be passed onto the consumers, I ask as we roll out auto specifics will vary hence elements of CBS, ABS and subsequently in terms of commodity etc., are concerned like in our call Mr. Sud already mentioned some of that impact of cost hit at least on commodity may come in Q4 and certainly for Q1 and we will take a model wise market scenario, segment analysis and decide the appropriate pricing decision obviously in the right manner some of it will have to get passed onto the market, what the precise degree would be only take the calls as we announce the new price. Haridwar excise duty element is concerned I will let Mr Sud comment, I think he has already explained but I do not think there is additional comment ...

**Ravi Sud:** In one other call earlier I have stated that this benefit will go away effective April 1, 2018 and on the company level the benefit will be about, the interest is about 1% point.

**Basudev Banerjee:** So obviously we will expect Hero as an organization to pass on that to the market to avoid absorbing that in a margin level so basically I was coming that all the small, small price increase required combinely asking for almost a 10 odd percentage plus overall price increase for the mid to small and lower end market so how that market will be prepared to absorb such a steep price hike when overall demand has not been that great for a prolonged period.

**Ravi Sud:** I will repeat what Ashok said I think making an increase of 10% in a highly competitive market we really do not know whether it will work so I think we will have to take the call at appropriate time as and when the things happen looking at the overall market overall sentiments, what best can we pass.

**Basudev Banerjee:** And Sir last question if I see your model mix in Q3 your Dawn Deluxe mix has in fact increased by 300 odd basis points contrary to your competitor as such so the lower end mix for your product has increased so despite that your gross margin has increased significantly as you said the benefit of lower raw mat on a lag basis so can one infer that your lower end product margin is still better or on the higher side because of this development.

**Ravi Sud:** I think I would not think to specific margins but I think we do have a very balanced portfolio in terms of the health of margins including what you are called the lower end the corresponding development during the same period that you have to keep in view is over the last few calls I have indicated how we have gone in for mission 1 million on Glamour and it is a number one model on 125cc for month-after-month and it has been growing at almost 20% to 25% one of the fastest growing bike model and that model is at the higher end so actually while on the one end there is an opportunity at the mat end we have actually also moved our mid cap because we are selling a lot more 125cc we have gained

market share by... we move from 50% market share to almost 58%, 59% and I think it is a very balanced portfolio with significant growth in 125cc coming on during the same period that you talked about and I anticipate that we will further grow in 125cc.

**Moderator:** Thank you. We will take the next question from the line of Raghu Nandan from Quant Capital. Please go ahead.

**Raghu Nandan:** Congratulations Sir on a good set of results and also wishing a lot to Mr. Sud for future endeavors. I have two questions can you share the third quarter performance in terms of rural urban growth first time replacement buyer's growth and also the share of hot cash and sales before and after demonetization.

**Ashok Bhasin:** I cannot share a breakup of urban, rural but I did mention that the overall industry during November, January period. November, December was a decline of 15% January was a decline of 9% now we have held onto our market share in fact we would have picked up 10, 20 basis points of market share during this period based on the initiatives that we have taken because conceptually if you see the impact of demonetization while it has been all across, it has been more severe in the rural and lower orders of the cash flows there have been very slow to recover but I think with the mitigating actions that we have taken of for a several cashless drive, actions programs, Grahak Shiksha Abhiyans, and facilitation centers etc., we have been able to do very well and therefore perhaps picked up maybe 10, 20 basis points of market share during this period that is all I can say, because you do know that almost 50% of our business does come from rural so for us to hold on and make marginal gain from market shares has been possible because of the initiatives that we have during this period quickly rapidly and with impact.

**Raghu Nandan:** Fair point sir and how have first time and replacement buyers like affected by demonetization.

**Ashok Bhasin:** I do not have the breakup for these 90 days if that mix has been anyway significantly changed because these are things that are measured over a longer period of time but I would say that quantitatively speaking the replacement market partly got affected because there is a component of exchange and exchange is an unorganized sector activity where there is an element of cash transactions so to that extent the exchange part of the business for the industry and overall did get affected during this period what we have done is we have put in place initiative to facilitate exchange by organizing the disorganized sector and it is again one of the actions that we have taken so certainly we have come out much better but for sure exchange is something that is slow to recover and it is an important part of the replacement market but I do not have exact statistics of the industry breakup of first and replacement during these 90 days and I said these are things that we measure over a longer period of time on averages.

- Moderator:** Thank you. We will move on to the next question that is from the line of Pratik Poddar from ICICI Prudential AMC. Please go ahead.
- Pratik Poddar:** Sir just one question on spare parts is if you could quantify the amount this quarter, last quarter, and same quarter last year.
- Ravi Sud:** Well in the quarter which has just gone by we did close to 500 Crores and spare part is one which got impacted very severely because of demon in the month of November and December and it has started improving now. So 500 is definitely a decline compared to previous quarter which was close to 600 Crores.
- Pratik Poddar:** So when you say previous quarter that is 2Q FY2017 right.
- Ravi Sud:** Yes.
- Pratik Poddar:** And Sir if you can just one small thing on Y-o-Y basis what would be the degrowth.
- Ravi Sud:** Well I do not have the figure with me now, I would give you separately.
- Pratik Poddar:** Thank you so much sir.
- Moderator:** Thank you. The next question is from the line of Hitesh Goel from Kotak Securities. Please go ahead.
- Hitesh Goel:** Sir what is your sense on demand revival in FY2018 considering the Rabbi showing has been good so can you give us some sense especially on the motorcycle demand which is driven by rural India what could be the outlook for FY2018.
- Ravi Sud:** On an overall perspective, I think I have shared that we expect good single digit growth to come to the industry in the next fiscal, there was a question that was asked what do I expect for the motorcycle and my answer is still the same that we expect our growth comes back, it will come back to both motorcycles and scooters during this period.
- Hitesh Goel:** And Sir any impact of pay commission coming to you due to the industry because we have seen that in Maruti's case most of the demand growth came from government employees but we have not seen that in the two wheeler industry so any thoughts on that.
- Ashok Bhasin:** No two wheeler industry there was a positive impact in fact in the festival this time we did record sales and around that time some of the payouts of the pay commission wherever they were happening they did create a positive impact on the sales including our brand so there was a positive impact but

obviously this time there was two things it was a much smaller quantum and the areas were much smaller so it did not have the same level of impact as the previous payout of the pay commission.

**Hitesh Goel:** Great thank you sir.

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

**Amin Pirani:** My first question was actually on your exports I just wanted to understand that the production that you do in Colombia and you will eventually do in Bangladesh how does that get accounted for... will that get reported in your monthly volumes and will it from part of your financials or will it be like a subsidiary and it will be separate, just wanted to understand how it will work.

**Ravi Sud:** Let us talk of Colombia, as far as Colombia is concerned we sell them the kits, CKD kits, which get accounted for in my books as export numbers. As far as Bangladesh is concerned, Bangladesh law is slightly different. There are two complications I think there we have to shift them as components, these are the kits, which will have to be packed as components and shipped. That situation is going to come to us very soon maybe this year yes we may have to ship them something sometime in March, but how we work for them, maybe we will have to give a note and account them in our books as numbers.

**Amin Pirani:** Okay. Understood. That is all from my side, and just for ending again congratulations for you future sir. Thank you very much.

**Moderator:** Thank you. We will take the next question from the line of Jinesh Gandhi from Motilal Oswal Securities. Please go ahead.

**Jinesh Gandhi:** Hi sir all the best for the future Mr. Sud. My question pertains to the other expenses which we have seen reduction quite substantially in this quarter, can you explain why such a sharp reduction of almost 100 Crores on Q-o-Q and Y-o-Y basis and how much of that is sustainable and second question pertains to the capex what is our guidance for FY2017 and FY2018.

**Ravi Sud:** Let me first answer the capex. As far as capex is concerned we have already announced that we have started a commercial production at **Halol plant** and the total capitalization so far had been about 830, with this capex we have a capacity of something like 8.9 million about because of various reason in the last three, four years the industry growth has been either flat or it has been 4% to 6% even current year or so I have mentioned it, we have made end of the year growth of about 6%. So now as far as 2017 is concerned I said anything between 1200 to 1400 Crores I think that capex should happen as far as FY2018 is concerned I think we have taken an approval of going up of capex something like 2000 Crores but that approval is subject to various conditions like phase II and phase III, if it is required we will spend, if it is not required I think it will be postponed from there then as far as capex

for Andhra Pradesh is concerned we are planning about 350 to 400 Crores, basically that will be to start construction. So the total capex under the prevalent circumstances for next year would be about 1000 to 1100 Crores that is what my estimate is.

**Jinesh Gandhi:** And other expenses Sir.

**Ravi Sud:** Other expenses in this third quarter had lot of things, one it had a festival season but then it had a crash so I think naturally we tightened our purses in the month of November and December.

**Moderator:** Thank you. We will move on to the next question that is from the line of Suraj Chheda from UBS Securities. Please go ahead.

**Sonal Gupta:** Hi good afternoon sir this is Sonal Gupta here and I am wishing the best to Mr. Sud. Sir just on the new launches just wanted to get a sense of how the 110cc launch in the Splendor range has gone and how are you seeing the response there and if you could just talk about what are the sort of new launches that you are looking for in next 12 months.

**Ravi Sud:** So for future launches I cannot speak of the specific because it has been our practice we communicate this specifics at the actual time of launch but what is coming in the next few weeks is the Glamour will get rolled out later this quarter, the Achiever has already started getting rolled out, all products will become BS-IV compliant and in some cases there will be some corresponding improvements in some of the models again the statistics will be shared as we bring them to the market in the next few weeks so that is all I can say for now and then there will be more to come as the news fiscal begins as a part of our future launches whose details we can share specifically at that time.

**Sonal Gupta:** And sir for the 110cc Splendor what sort of response do we see?

**Ashok Bhasin:** 110cc currently it has been done only with one product which is the iSmart range but most of the models should be now getting converted to BS-IV and that is when we will be fully participating because my iSmart is a much smaller component of the total spend of franchise but I would say by next quarter we would have fully rolled it out with 110cc and BS-IV across all Splendor models and we expect it to have a positive impact in terms of acceptability and response.

**Sonal Gupta:** And Sir from a see again a longer term view how do you see the growth diversions or growth differential between scooters or motorcycles would you say that the differential should come down or do you say in that scooter has significantly outpaced motorcycles.

**Ashok Bhasin:** I would not put it very straight to it but I think first of all there is a scope for both to grow in terms of percentages scooters could in this short to medium-term be slightly ahead of motorcycles I do not think they would go back to the giving growth numbers of 30% odd that scooter industry were seeing



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*February 09, 2017*

earlier but it will be healthy positive growth maybe slightly ahead of motorcycles but motorcycles itself should be able to grow in the coming periods.

**Moderator:** Thank you. Ladies and gentlemen that was the last question. I would now like to hand the conference over to Mr. Umang Khurana for his closing comments.

**Umang Khurana:** Thank you everyone for coming on the call very happy to take your questions later have a very good day thank you.

**Moderator:** Thank you. Ladies and gentlemen with that we conclude today's conference. Thank you for joining you and us may now disconnect your lines.