



“Hero MotoCorp Limited
Q4 FY2020 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to the Q4 FY2020 Results Call of Hero MotoCorp hosted by Emkay Global Financial Services. As a reminder all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Raghunandhan N.L. from Emkay Global. Thank you, and over to you, Sir!

Raghunandhan N.L.: Thank you, Ayesha. Good morning everyone, I would like to welcome management of Hero MotoCorp and thank them for giving us this opportunity. We have with us today Mr. Niranjan Gupta, Chief Financial Officer; Mr. Naveen Chauhan, Head, Sales and Aftersales and Mr. Umang Khurana, Head, Investor Relations. I would now hand over the call to Umang and request him to take it forward. Over to you Umang!

Umang Khurana: Thank you Raghu. Thank you for hosting us. Hello everyone and welcome to the Q4 and full year FY2020 investor call for Hero MotoCorp.

Trust everyone is feeling and keeping safe and healthy. Here is wishing, by the time we do our call next quarter, the pandemic and its impacts are behind us.

Raghu has already spoken about the participants on the call. We will begin with opening comments from our CFO, Niranjan and then open the house for Q&A. Niranjan over to you!

Niranjan Gupta: Thanks Umang. Welcome everyone to this call. These are unprecedented times, and I will talk a bit about that. Before that let us just have a recap of the quarter results that we declared yesterday evening.

Our revenues as you would have seen ₹6238 Cr.; however, as we adjust for the lockdown loss of sales impact where we lost 2.3 lakhs of sales in the last 9 days, then the adjusted revenue would stand at ₹7400 Cr. that is important to understand the underlying revenue.

Similarly, EBITDA margins, which you would have seen at 10.6%, if you exclude the one-off items that we have factored in Q4, the underlying EBITDA margins would actually be 13.5%. These one-off items comprise the support that we give to the dealers towards the end for liquidation of BS IV, equally a provision that is created on the Neemrana fiscal benefit and some provision on account raw material and finished goods obsolescence on BS IV and BS VI transition.

If you apply this 13.5% to the adjusted revenue, actually our underlying EBITDA would have been ₹1,000 Cr.. We declared a dividend of ₹25 per share including interim, this is ₹90 per share, higher than last year and our declaration of dividend maintaining a very progressive policy of payout is evidence of our confidence in our liquidity position.

Coming to the volumes, you would have seen the volumes. We gained market share in Motorcycles. We have retained very strong leadership in Entry and Deluxe. We made a foray in the Premium Motorcycle segment which will further be boosted by the launch of Xtreme 160R which will start getting dispatched in a couple of weeks.

Scooters, were impacted in the quarter by a conscious call to stop production before December-end as we migrated from BS IV to BS VI. Our 125cc scooters have been doing pretty well.

Overall, for the year again, what will be important for you to note is this year we brought down the dealer inventory by almost 5.5 lakhs, the dealer network is sitting at one of the lowest inventories, which is also very important for dealer financial health as much less working capital is locked into the system, which helps in revival and sprinting ahead.

Overall, if you look at it, therefore, from the results perspective, while the dispatches may indicate a decline, on an underlying retail basis we grew; and, this is a good sign until the lockdown struck. That's about the results.

Now let us talk about the current situation - about the pandemic, about the way forward, and how do we see things panning out. We are all aware that India enforced one of the strictest lockdowns in the world, and virtually two months of business got washed out.

It is of course important at Hero as well - safety and well-being of all our stakeholders is a key priority, and in line with that we actually shut our factories ahead of the national lockdown announcement. Equally, as we all have heard "life" and "livelihood" both are important. So when we talk about well-being, the wellbeing is not just about physical health, it is about economic and financial health as well, because the two are really symbiotic at some point of inflection curve.

So this year is going to be about balancing all aspects of life and business and you will see that more and more in our decisions, in our numbers and in our communication moving forward. These seem to be seemingly conflicting objectives, but business and life is about finding an optimum ground as solutions and the optima point may keep moving in different ways as we navigate the year.

As far as demand is concerned in FY2021, very difficult to give a forecast about the demand; however, one can cue with what are the positive factors and what are the headwinds. One of the key headwinds, is lesser income in the hands of customers, customers will have to make a priority, a choice, and we as businesses will have to play a role in ensuring that they also prioritize money towards buying goods like two-wheelers, which are essential as mass mobility and also as income enablers.

Equally, there are going to be factors like pent-up demand. India's two-wheeler story stays intact as two-wheeler is a not a luxury in India, it is about mass mobility and also as social distancing norms are observed, it could give rise to a shift towards personal mobility. So therefore there is going to be a mix of factors, both positives and downsides and we will have to be prepared to navigate through the downturns and prepared to capitalize on any opportunity that comes our way.

As far as the reopening and restart is concerned. As we all know the lockdown has been relaxed and most of the restrictions have been taken off. All our plants have opened up. They are become operational. The volumes ramping up gradually. In terms of our vendors, all our vendors have opened up from the raw material side. Outlets, more than 90% of outlets have opened up, so the physicality of restart, one would say is close to complete in terms of restarting the operations. The ramp up will be gradual in line with the customer demand. Initially, we are seeing a good pickup in the retail in the first few days and this year is going to be about navigating the situation and monitoring it dynamically.

Getting volumes back will be key priority, given that the topline is the one that is going to drive the bottomline. Among these headwinds, it is of course essential to keep an eye on cost and cash management as well. Liquidity and balance sheet strength is essential for survival of the fittest. And in these aspects, Hero is very well positioned in these uncertain times.

These are unprecedented times, and we are focussed on unlocking restarting and reviving operations, while ensuring, as we said, the health and well being both the physical health and the financial health of all Heroes, all stakeholders across the ecosystem.

With that we open the floor for your questions.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Ronak Sarda from Systematix. Please go ahead.

Ronak Sarda: Thank you for the opportunity. Hope all of you are safe. Sir, first question is on the demand side. When you say 90% of the dealers are open, if you can just help us understand, how the

footfalls are, we are hearing lot of online inquiries have increased, but how are the conversion rates there and what do you think Hero will have to do to bring back customers and convert those into orders? That is the first question.

Niranjan Gupta: Ronak thanks for the question. As we mentioned, the pickup in the retail has been good, there were lot of pent-up inquiries as well, the conversion is also good. I will just ask Naveen to add some qualitative flesh onto this as well. Naveen!

Naveen Chauhan: Thank you for your question. As Niranjan has mentioned, the pent-up is taking the demand. In marriage markets, there is an uptick, customers coming and asking for our products. Overall, we see this as a very, very positive cue, and in terms of inquiries, we are right up there. Week-on-week these numbers are improving and we are very, very positive on the trend that we see. Thank you.

Ronak Sarda: Sir, second question on Hero FinCorp. If you can just help us understand on the financing situation, how are things at Hero FinCorp? What is the kind of moratorium the customers have taken in Phase I which was announced by RBI and how the liquidity situation and do you see any financing challenges?

Niranjan Gupta: As far as FinCorp is concerned, in fact the financing percentage have been increasing, the FY2020 we have financed 46% versus 41% in FY2019, we are continue to be at 40% plus even in Q4 and that is the plan going forward. They have sufficient liquidity, as they had raised capital, yes, some customers have taken moratorium, equally these are month-to-month moratoriums and the customers are paying up, and then subsequently taking the next month's moratorium because lot of customers do not want to create or accumulate a lot of payments post the moratorium expires and equally Hero FinCorp as always, and like most organizations, have been running incentives for people who are making payments early. I think they are running their operations pretty well, they are well managed on liquidity, and have got a good runway.

Ronak Sarda: But any number sir on the number of customers, if you can just help with?

Niranjan Gupta: No Ronak, we will not able to give out any numbers at this stage.

Ronak Sarda: Sure sir. Thank you and all the best.

Moderator: Thank you. The next question is from the line of Nishit Jalan from Axis Capital. Please go ahead.

Nishit Jalan: Thank you for giving me the opportunity. Sir, my first question is like you highlighted in your initial remarks that you had to give certain discounts and compensation to dealers to get rid of BS IV inventory. Just wanted to understand, if you can highlight the impact of that because that will be a purely one-off and it will help us in forecasting numbers going ahead?

Niranjan Gupta: As I said the one-off impact, and for everyone to understand the financial statements, is that the EBITDA margin would have been 13.5% instead of 10.6% out of that one of the big ones is the one-off support that we provided to the dealers and that is around ₹110 Cr. and this amounts to ₹10,000 to ₹15,000 per vehicle towards the end of March. So, that is one of those impacts there. Other than that we have also provided, made a provision for Neemrana fiscal benefit to the extent of around ₹57 Cr., and there is some raw material obsolescence and BS VI on the inventory level that we provided. So all that put together the underlying EBITDA margin is 13.5% excluding this one-off, this should help you in terms of looking at how the future may pan out.

Nishit Jalan: Sir, you have highlighted that our retails have kind of picked up. Any granularity you are getting as to which regions your markets are picking up, or you are actually seeing any downtrading happening say for example from 150cc to 125cc or 125cc to 100cc. Any color on that, would be helpful?

Naveen Chauhan: Yes, so by and large pan India there is a positive response except for the markets which are badly affected by COVID primarily being Maharashtra and Gujarat, rest everywhere we see positive uptake the second question was about down-trading, yes we see that and we are well positioned to capture that, with our new products which are getting very, very positive response across.

Nishit Jalan: Sir just one last thing, you have taken a price increase, if you believe the media reports in April and May. Just wanted to understand what the reason was for that because you had already passed on the BS VI related cost in price increases that you had done in Feb and March?

Niranjan Gupta: What we had done was to improve dealer margins for the BS VI in the month of May and also while we did pass on in BS VI the relative price positioning, minor fine-tuning had to be done to adjust that. So these are two factors why we took the price increase at that point in time.

Nishit Jalan: Thank you so much.

- Moderator:** Thank you. The next question is from the line of Kapil Singh from Nomura Securities. Please go ahead.
- Kapil Singh:** My first question is on production and retail sales trend. Some of the companies are mentioning that while retail sales are improving production is turning out to be a constraint as well. So could you give some color as to will the production lag the retail sales in the near-term or you are well positioned to bring production up to say 60%, 70% levels if retail does get there.
- Niranjan Gupta:** Kapil good question and it is a good problem to have right. All this while over the last two, three years we have been chasing retails and now if retails are chasing production I think it is a good problem to have especially coming on the back of low inventory that we opened up the year with. Having said that we in Hero have got multiple plants, Andhra also opened up. We have Halol also. We have Neemrana. We have NCR. So I think these positions are much better as compared to an earlier concentrated client which was more in NCR a few years back and therefore we have flexibility as you know because manpower coming back, migrants coming back, so our multiplicity of plants especially the Halol and Andhra plants provides us with a lot of flexibility. We see manpower for our plant is coming back, of course not to the full level now, but given that our general pay scale for contractors, casuals or workers is quite remunerative compared to their alternative options, we do expect a lot of them to come back, which they have started already. So for a short period of time there maybe retails chasing production but we are very confident of making that up. --, All our vendors are open so therefore it is not that some of the vendors are still closed. As I said capacity ramp up will be gradual, but the first thing which was restarting, opening up all factories, all vendors that has been achieved.
- Kapil Singh:** Secondly, you mentioned that some one-off related to Neemrana where is that taken and what is it related to, would you able to help us understand?
- Niranjan Gupta:** As we transition to the GST regime, the fiscal policy stated that the 5% raw material refund that we were getting earlier, in the new GST regime that was not incorporated. So in principle, that is recoverable and we are doing all advocacy and all angles moving forward, but given that for the last two years that money did not come and therefore just on a conservative basis we decided to take a provision for that.
- Kapil Singh:** So this has taken in other expenses or sales?
- Niranjan Gupta:** Other Operating Income.

Kapil Singh: Sir lastly if you have any quantitative or qualitative info, if I look at the industry basically three segments mass market motorcycles, premium motorcycles, and scooters, then what is the rural and urban mix in these categories and is there any divide in terms of rural or urban doing better?

Niranjana Gupta: I think it is too early to actually put a rural and urban mix to the numbers. Right now we are just focused on ensuring that all physicality of operations are opened up and they get ramped up. Ensuring social distancing, ensuring all safety measures, ensuring comfort of the customers and ensuring a mix of digital and physical. So this is where our focus is. If you are asking about the economy in general one can cue that given agricultural activities like the increase in crop sowing, forecast of normal monsoon and also fiscal stimulus directed towards rural and semi urban, probably those economies are likely to do better than the urban economies. So we will have to watch out for the trend as we move forward.

Kapil Singh: Than you so much.

Moderator: Thank you. The next question is from the line of Gunjan Prithyani from JPMorgan. Please go ahead.

Gunjan Prithyani: Thanks for taking my question. Firstly, I have a follow up on this demand pickup that you are talking about, it is good to hear that the way you put that 90% of your retail stores are now opened will it be possible to share some sense on where these stores are in, in relation to the normative levels? Any sense of where we are say in perspective of let us say where pre-COVID or normative levels that typically the stores operate at? On the inventory as well if you can give more sense really I mean where are we now in terms of either month of inventory or the absolute inventory if any sense you can provide on that?

Niranjana Gupta: Gunjan thanks for this. As we say it is early days to pickup our trend on what percentage we have reached to pre-COVID levels because we will also have to see how sustainable these numbers are and therefore it would not be right or fair to comment on that. All we can say is that as we said 90% of retail stores have opened up. All these outlets which have opened up and which are operating for more than couple of weeks have a good pickup as far as retail is concerned. So I think we will stay with that and what was your second question.

Gunjan Prithyani: Yes, the inventory levels.

Niranjana Gupta: We did open up with 5.5 lakh of BS VI inventory in the market as on 1st April .

Gunjan Prithyani: Second question I have is, on the financing side. Now this has been a general concern that given where we are in terms of more at increasing in general state of the economy financing

is bound to be tight is that something you are sensing at your dealerships and around that from Hero FinCorp's perspective I see that you have invested about ₹260 odd crores in Q4 is this the other investors have also come along is the stake remains the same and what kind of capital call do you anticipate can come from this subsidiary or investment can come from this subsidiary going into FY2021 if you can talk about the financing side?

Niranjan Gupta: Gunjan so since Umang has limited questions to 2. You blended three questions in to your question number two! I will attempt to answer those, one is on financing, on the contrary actually the financial institutions are coming forward do finance the two-wheeler, simply because if you look at the corporate financing and SME or medium enterprise or business financing that is where the risk premiums and risks have gone up. As far as the two-wheeler financing is concerned because the tenure is low typically 24 months so people with liquidity obviously institutions have liquidity but they are looking for safer relatively safer aspect and lower duration lending. So in that aspect I would say two-wheeler financing is well placed and we are seeing interest not only from FinCorp but interest from other institutions as well. As far as they raise of capital from FinCorp is concerned, other investors also subscribed proportionately so our stakes broadly remain the same.

Gunjan Prithyani: Thank you so much.

Moderator: Thank you. The next question is from the line of Priya Ranjan from Antique Stock Broking. Please go ahead.

Priya Ranjan: Thanks for taking my question. If you can categorize in various states or various geography, where do you see the bucket and in terms of bucket which are the areas where I mean particularly regions etc., is actually coming back faster than overall India?

Niranjan Gupta: Priya Ranjan again I would urge that these are very early days. Lockdown has opened just four weeks back in a gradual fashion into red, green and amber zone. and As outlets have started opening, social distancing, safety measures, all SOPs have been rolled out and now customers have started coming and as we said the retail pickup is better than what we expected, but these are early days. So I think to then cut it by rural urban or west, south or geography wise not enough data to comment on that. Naveen, you want to add anything.

Naveen Chauhan: As you said Niranjan, as we look at the time of opening, all dealerships which are open for more than two or three weeks they see positive quite a positive pickup and as I said markets which are affected by COVID there is a lag there.

Priya Ranjan: Just on the margin front and the commodity cost going forward, how do you see that Niranjan? Do you expect some benefit in coming although that it is not reflecting because

of lower volume, but in terms of pure commodity benefit in components etc., do you see some kind of benefit going forward?

Niranjan Gupta: As far as commodity is concerned, you can see the global economic growth is in a slowdown phase and commodities are likely to remain soft. So whether it is aluminum, whether it is crude oil, so some of those benefits should flow in. Having said that, we also have currency depreciation, we also have precious metals, which are the two counterforces' on the cost. So, as I said balancing will be key moving forward in this year. As a basket if you see, should be a positive tailwind.

Priya Ranjan: That is all from my side. Thank you.

Moderator: Thank you. The next question is from the line of Ashutosh Tiwari from Equirus Capital. Please go ahead.

Ashutosh Tiwari: Sir how are you seeing trends in terms of servicing at dealer level as compared to pre-COVID some comment over there?

Naveen Chauhan: Servicing response has been good. We are seeing the customers are queuing up because the vehicles were held up for quite some time, though we connected with our customers in terms of giving them, do-it-yourself (DIY) kind of advices. But we see a positive response in the service front as well.

Ashutosh Tiwari: As compared to pre-COVID, at what level it would be roughly?

Naveen Chauhan: So we are almost there in the service segment.

Ashutosh Tiwari: Secondly over last three, four years we have seen HF Deluxe proportion in overall sales going up, so are we again seeing a trend that because BS VI transition need to further go up in our mix and also in this in HF Deluxe I think kick-start was doing better so is there trend post opening up that kick-start variant sales are going up more than sales?

Niranjan Gupta: If you look at it again, right now for a trend of a month or four weeks difficult to call. But, as far as our plans are concerned we are launching Xtreme 160 which is right in the belly of the premium market, dispatches will commence in couple of weeks' time itself. We do see our share in the premium going up on the contrary rather than share of the HF Deluxe going up.

Naveen Chauhan: Just to add to what Niranjan said, XPulse, which we launched last year, gave us entry into new markets for example down South is doing pretty well.

Moderator: Thank you. The next question is from the line of Raghunandhan N.L. from Emkay Global. Please go ahead.

Raghunandhan N.L.: Thank you for the opportunity. Sir continuing the thoughts on Xtreme 160cc motorcycle you indicated launch in next couple of weeks, what are your expectations for the model in terms of market positioning and potential volume targets?

Niranjan Gupta: It is right in the belly of the market so you know the market of Premium between 150cc and 200cc is the biggest part of the market. Naveen you want to comment a bit more on our Xtreme 160cc?

Naveen Chauhan: We showcased this in our Hero World 2020 and the response has been very positive. Our dealers are very inquisitive and asking for it. In two weeks we are going to start the dispatches. We are looking at higher single digit market share to start with on this and we will see as we move forward. Also there are a lot segments firsts in the product, in fact and it is a very exciting product.

Raghunandhan N.L.: All the best for the product. My second question was as the press release highlighted on the cost reduction efforts, if you can talk a bit on LEAP program, expectations forward and the focus of management both on reduction of cost and reduction on capex that will be helpful?

Niranjan Gupta: As we said, obviously the first priority is to get the volumes back and I think some of you repeatedly asked this question. Generally if we were to give a number, as we said more of 90% of outlets opened, all our vendors opened, all our plants opened and many of our dealers are actually reaching more than 70%, 80% of the pre-COVID retails as of now. We will have to watch the trend very closely and then move forward. While prioritizing this and focusing on the volume growth moving into premium the market share, cost and cash, obviously is alongside a key part and as again as I said, balancing is the key aspect. we have doubled our LEAP savings program target. Last year we delivered around 50 basis points. We are targeting to deliver 100 basis points this year. There are programs going on which we are calling it LEAP 2 now. There is also a program launched to improve productivity of spends on our overheads where again we are targeting substantial savings on an account of overheads this year. And finally on the capex earlier our projection was around ₹1,000 Cr.. We have again rationalized and deferred parts of it to contain it to close to around ₹600 Cr. capex for the year. So on the underlying cost, on the overheads and on the capex, on all three steams the teams are working on it, plus of course as far as R&D is concerned this is where we have not cut our investments. The product development is ongoing and all the programs that is there in the R&D they are not getting starved of funds. So while cutting costs, while optimizing, while improving productivity of spends, we are very conscious of ensuring that the medium and long-term business priorities are not harmed.

- Raghunandhan N.L.:** Any specific areas where the capex reduction of ₹400 Cr. pertains to?
- Niranjan Gupta:** It is generally across everything, as I said, other than the R&D. Parts of it are the capacity expansions that were planned or some renovations that were planned have been deferred. Our R&D has been prioritized in terms of the investments.
- Raghunandhan N.L.:** Thank you Sir. I will come back in the queue for more questions.
- Moderator:** Thank you. The next question is from the line of Karthik Chellappa from Buena Vista Fund Management. Please go ahead.
- Karthik Chellappa:** Thank you very much for the opportunity sir. My first question is basically on our scooter market share. It has been under pressure at least for the last couple of years; can you talk about specific initiatives you have in that segment to gain back the loss market share?
- Niranjan Gupta:** As far as scooter is concerned, I will talk a bit and then hand it over to Naveen this year was also about inventory adjustment in scooter. Our 125cc did fare very well and moving forward we do see our exciting product in the shape of the 110cc new Pleasure BS VI model or our 125cc Destini and Maestro Edge, picking up shares in FY2021. Let me hand it over to Naveen to add on to that.
- Naveen Chauhan:** You have given the flavor Niranjan. Pleasure Plus has been received very positively. While the earlier version was limited to some markets, on the new Pleasure Plus we are getting positive cues from across markets. So that is one strong positive for us. 125cc which has grown close to 2.5 times in last four years, our presence in that segment is positive news for us. Destini and 125 Maestro Edge are well positioned. In our strong markets we are getting very positive numbers in market share and Destini offers the right value to the customer and hence we will do good there as well, so let us wait.
- Karthik Chellappa:** Sir my second question is on the share of financing *per se*. You had mentioned in one of your earlier comments that it has reached 46% in FY2020. Do you expect the share to rise and as dealer outlets open have you noticed any change in the number of financing partners at the outlet level?
- Naveen Chauhan:** The finance share has gone up, that is for sure, and in the recent times, post-COVID whatever outlets that have opened there is demand which is picking up for financing. As far as the finance partner is concerned we are looking at finance as a product and our discussion with our financial partners is to continue to innovate on the financial products. So that is the direction in which we are working.

- Karthik Chellappa:** Rather than addition of partners that the existing partners you are trying to come up with kind of schemes, which can be more adding value to the customers. That is how we should take it?
- Naveen Chauhan:** Absolutely.
- Karthik Chellappa:** Thank you very much Sir. I will come back in the queue for more questions. And wish you all the best.
- Moderator:** Thank you. The next question is from the line of Amyn Pirani from CLSA. Please go ahead.
- Amyn Pirani:** Thank you for the opportunity. My first question was just a clarification on the financing. So 46% is the overall number for you, how much of this would be done by FinCorp?
- Niranjan Gupta:** Let me just clarify, the two-wheeler total financing in FY2020 was 43%, so 43% of our sales went through financing and out of that if you see FinCorp's share is 46%.
- Amyn Pirani:** My second question is that you have also started this new digital selling process, which I guess every OEM is now thinking about. So my question was that out of the overall sales processes, what percentage of the processes have you been able to move completely digital and how do you think this will play out in a market like India where it is not always possible to do everything digitally? So just your thoughts on that will be helpful.
- Naveen Chauhan:** From the time the inquiry gets logged in, to the final delivery, the entire process has been digitized. In fact, we have done some pure contactless deliveries to the customer in the recent past. So the entire documentation is digital, there is no physical connect which is required in the process.
- Amyn Pirani:** Even financing happens without the hardcopy and all?
- Naveen Chauhan:** This financing piece is getting integrated into our process so that is the direction in which we are working with our finance partners.
- Amyn Pirani:** Okay, that is helpful I will come back in the queue. Thank you.
- Moderator:** Thank you. The next question is from the line of Sonal Gupta from UBS Securities. Please go ahead.
- Sonal Gupta:** Good afternoon and thanks for taking my question. Just a few housekeeping questions so sir could you tell us what was the spare part revenues for Q4 and for the year?

- Niranjan Gupta:** Yes for the Q4 the spare part revenue was ₹751 Cr. and for the year it was ₹2,896 Cr. which reflected 2% growth year-on-year.
- Sonal Gupta:** What was the other operating income for the quarter?
- Niranjan Gupta:** I think that would be there in the financial statements which you can pickup but for the quarter if you want to know the other operating revenue was ₹137 Cr..
- Sonal Gupta:** This is after the impact of Neemrana like you say.
- Niranjan Gupta:** Yes.
- Sonal Gupta:** Sir, could you give us the sense of like now post BS VI what sort of costs come from precious group metals, I mean, any sense you can give us on that?
- Niranjan Gupta:** I mean, if you see precious metals would be roughly not a big number as such in terms of percentage of the revenue. Probably close to 4%, 5% as overall basket so it all depends on the movement within the previous metals because of three types of precious metals within that and therefore the price movement is important.
- Sonal Gupta:** But within that you would be more linked with palladium or is it others?
- Niranjan Gupta:** There are different proportions so that we will not be able to give out to you but whether rhodium, palladium and platinum, all three are there. As part of our LEAP 2 programs as we highlighted, we are looking at doubling our savings program, one of the things is to look at flexibility in composition as well.
- Sonal Gupta:** Thank you so much. I will join back the queue.
- Moderator:** Thank you. The next question is from the line of Mihir Jhaveri from Avendus Capital. Please go ahead.
- Mihir Jhaveri:** Thank you for the opportunity. Sir what is the inventory levels right now because you said inventory is pretty low so can we get ball park number of what is the sense currently vis-à-vis what it was earlier?
- Niranjan Gupta:** Current inventory we would not be able to give we started a very low inventory as we said. So the FY2020 we closed inventory which is almost 5 lakhs, 5.5 lakhs lower than the FY2019 ending so in a sense right now retails are chasing production, as one of you asked,

and we are ramping up production pretty fast in that manner as the retails have shown very good pickup in the early days.

Mihir Jhaveri: Sir any idea on how, obviously it is too early, you said that week-on-week things are improving, but how does the quarter stands, because April will be pretty muted anyways May would also be so I think there will be some pickup in June so do we think that the quarter is going to be pretty muted as a whole, though there has been recovery but how should we look at it?

Niranjan Gupta: We do not give out quarter guidance. I think it is important to recognize that in April there was a full lockdown and then in May the lockdown started opening and therefore again, as I repeat, the focus has been to ensure first of all, all our operations open. To that extent opening 90% of outlets, 100% of our facilities and 100% of our vendors in just four weeks signals a very rapid ramp up towards normalcy plus the pickup in the retail, as we said has been better than expected. So it all augurs well and we will move forward with that and then monitor month-on-month basis.

Mihir Jhaveri: Thank you.

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

Hitesh Goel: Thanks for taking my questions. Basically what we are trying to get a sense on the numbers of retail side to project our numbers is what I get a sense from is that June would likely be around 3.5 lakhs retails or something like that is that a right number to look at? How should we look at retail numbers in couple of months to just give us the trajectory how should we forecast, I know it is difficult but just to get the current trend?

Niranjan Gupta: Again, I repeat and I am sorry to repeat again, we do not give any monthly guidance or forecast on the numbers. Again what is important is, 90% of our outlets have opened within two weeks of opening a lot of our outlets majority of our outlets are reaching pretty close to pre-COVID levels so that is the early sign as far as retails are concerned which is a very good sign and positive aspect that we see.

Hitesh Goel: Niranjan, I was referring to that only because if we look at pre-COVID in January, February you were doing around 5 lakh kind of numbers on a monthly basis. So if it is 70%, 80% of that number, then I think 3.5 lakhs is kind of a run rate you are looking at that is what the kind of uncertainty?

Niranjan Gupta: I leave it to you and your team to do the fine tuning and the calculations. Let us rest it there.

Hitesh Goel: My second question is on the other expenses given this sharp fall on a Q-on-Q basis even on Y-o-Y basis on the volumes we have not seen much reduction on the other expenses. So can you just guide us if there is some one-offs or one time provisions we have taken there as well and how do you plan to reduce this first?

Niranjan Gupta: I think if you look at our other expenses trajectory it has already reduced significantly. If you look at Q4 of last year was ₹930 Cr. and you see this quarter is ₹820 Cr., ₹825 odd Cr. and even on a year-on-year basis it has reduced and as I said moving forward we have launched programs on optimizing our overheads and improving productivity of spends and you will see that coming through in the future quarters as we move forward.

Hitesh Goel: Great. All the best and hope everybody remains safe. Thank you.

Moderator: Thank you. The next question is from the line of Ashwani Kumar from Nippon India Mutual Fund. Please go ahead.

Ashwani Kumar: I just wanted to know in terms of financing schemes what are you doing to really make the things affordable till the consumer comes back in to the normal shape in terms of this earnings or income, that is the question?

Niranjan Gupta: There are multiple things like for instance the by geographies, by markets we see where a low down payment is important so to those customers you provide that option. For some of the customers, flexi cash or flexi EMI, that is important, for some customers it is the ROI or the rate of interest that is important. So we are actually, as Naveen also said, working will all our financing partners to ensure that the products are customized to the local geographies and to the customer group so that a customer is offered with multiple options and therefore he can then buy the two-wheeler that he requires.

Ashwani Kumar: Do you fear that replacement demand is a significant part of the total demand. In a situation like this people would essentially those who need it might come and buy certainly at some point in time they will do the needful but people who want to replace they might actually postpone the vehicle purchase for some time, how do you address this situation?

Niranjan Gupta: There are multiple things that will happen so from one side, you have people who were let us say thinking of buying little later, may buy earlier because of social distancing and moving from shared transportation to actually personal transportation. In fact, we see a lot of institutions and lot of companies for their own sales forces are allowing them or providing them facilities to buy two wheelers instead of opting for shared transportation or a cab or a taxi or a Ola or a Uber. So I think there are those trends which can be positive which can bring forward the demand, equally there would be people who may defer it for a

few weeks or a quarter and then other side positive is a lot of pent-up as well, remember for the last two months virtually there was no business and these all planned buying where people allocate money and then keep it aside. So there are multiple combinations and forces that will act. The rural and semi-urban economy is showing a good positive pickup both in terms of agricultural crop and monsoon and the stimulus that has gone in that is another positive factor that can play out. So which is why it is very important to capitalize on the opportunities that present themselves and give customers multiple options which suit the requirements of customers. Then get the volumes back and towards that as we said the initial three, four weeks have been pretty good on the retails and we will continue to navigate that and move forward. Naveen you want to add anything?

Naveen Chauhan: I think you have summed it up well. There are forces which are working for the demand which is coming up and yes there maybe few customers who might think of replacing it to later, but as of now things are moving rightfully.

Ashwani Kumar: Is there any specific income group which gets more impacted who are buyers for your product sir. Any specific income group you would like to highlight?

Niranjan Gupta: Logically it will be the lowest income group, which will be impacted. Having said that some of those issues can be sorted out by innovative financing products, because remember that the two-wheeler purchase for a lower income group is not something which he is buying for luxury, he is buying to step-up his income and one of the examples that is my favorite is a milkman selling by just walking versus one on a cycle versus on a motorcycle. You can just imagine a multiplier effect that it has. So I think people will look for multiplying the income and income sources and two-wheeler become the necessity in that aspect so I think the key will be unlocking financing products so that they can pay as you go kind of stock and towards that is what we are working towards with our financing partners.

Naveen Chauhan: So I think, large chunk of the commuter is self-employed and that is something which is going to be there. I do not think too much impact as we see move forward.

Ashwani Kumar: Thank you very much.

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

Jinesh Gandhi: Couple of questions, first is on the depreciation side in this quarter we have seen a sharp decline on Q-o-Q basis is there any one-off in that or previous quarters had BS IV related write-offs?

- Niranjan Gupta:** No, not really because at the end of the year we did take overall calculation of depreciation including the accelerated depreciation that we did for BS IV - BS VI transition. Overall for the full year if you see the accelerated depreciation on account of just the BS IV - BS VI would have amounted to close to around ₹30 Cr. per quarter.
- Jinesh Gandhi:** Second question pertains to you indicated about inventory at dealership being very low. Are we using this opportunity to bring down our normal run rate of inventory which we have in the system in this kind of environment? Usually we use to have anywhere between 35 to 45 days of inventories in the channel are we looking to take it a step down and use this opportunity to make it lower inventory.
- Niranjan Gupta:** There is space to increase as the retails surge forward. As we move forward there is space to increase that, as we said, it is a good problem to have. The positive retails have surprised us and all in terms of the just the rapid ramp up that it has happened. Production is ramping up pretty fast and in terms of meeting the requirements and as retails move up there will be space for inventory to move up as well.
- Jinesh Gandhi:** Lastly if you can share some flavor of numbers at Hero FinCorp, book size and other details including profit?
- Niranjan Gupta:** Sorry which numbers of Hero FinCorp?
- Jinesh Gandhi:** Sir the book size, in terms of profits and these details if you can help?
- Niranjan Gupta:** I will probably give in short, the overall book size Q4 over Q4 has grown up by 20%. FinCorp continues to be profitable. They have declared profit for the quarter and for the year and year-on-year profit also has grown and they have sufficient liquidity as they called up equity capital in Q4 of this year.
- Jinesh Gandhi:** Thanks.
- Moderator:** Thank you. The next question is from the line of Shyam Sundar Sriram from Sundaram Mutual Fund. Please go ahead.
- Shyam Sundar Sriram:** In terms of the raw material cost as percentage of sales we have seen a sharp increase on a sequential basis and while some of this can be understood because of the BS VI dispatches from a per vehicle raw material cost also has increased more than the increase in realization if you can help us understand that. Secondly with the price increases we have taken with the gross profit per vehicle basis be similar to what it was prior in the BS IV era if you can comment on that?

Niranjan Gupta: I will give a broad answer to that, primarily the increase in material costs as you rightly said is on account of BS IV - BS VI mix equally there were some one-offs which I highlighted already in terms of material cost. Going forward as far as margin is concerned we will not give a guidance for the margins. However, if you look at the factors there is BS VI where the absolute cost has been passed on into the pricing. The numerator denominator impact, whatever it will be, will pan out, on the commodity side that basket is expected to remain soft so that should help. On our own initiatives, we have launched these three initiatives: LEAP II which is doubling the target of LEAP I. We are cutting capex to ₹600 Cr. and we are launching a program on overheads saving so that should help us. Beyond all this, the key is we will need to pickup volumes, because you need a certain volume and a topline to be able to absorb the fixed overheads and that is why our focus has been on volume and it has been pretty successful so far in the last four weeks.

Shyam Sundar Sriram: No, I was just asking on the gross profit per vehicle but you did mention that the all the cost has been passed on and that was helpful sir. Sir from a balance sheet perspective the receivable days has come off quite sharply, whether we compare Y-o-Y or from September balance sheet perspective what has changed there any change in the terms of trade per se if you can highlight anything there Sir.

Niranjan Gupta: As far as receivable is concerned earlier they were all elevated levels which is what we had explained and thereafter because our inventory was also on elevated levels so as the inventory in the market has come down so as receivables on our book also has come down.

Shyam Sundar Sriram: There is no change in terms of trade with the dealers or anything anything of that sort?

Niranjan Gupta: No change in terms of trade.

Shyam Sundar Sriram: Sir one last question if I may squeeze from a BS IV, BS VI peak during the quarter if you can give some color on that based on the dispatches we have done and any unregistered BS IV stock left there and then remaining?

Niranjan Gupta: For the quarter roughly you could say half was BS VI and half was BS IV. So that is the rough breakup of the Q4 dispatches. All the BS IV stocks with the dealers have been sold. There could be some which is not registered at the network, would be smaller quantity, that is more a registration part and a smaller quantity in terms of selling all the BS IV stocks have been sold by the dealer.

Moderator: Thank you. The next question is from the line of Chirag Shah from Edelweiss Securities Limited. Please go ahead. As there is no response from the current participant I have muted

the line. The next question is from the line of Prashant Raj from ICICI Securities. Please go ahead.

Prashant Raj: Thank you for the opportunity. First, housekeeping question, for FY2020 your thoughts on what is the rural versus urban mix and how did those segments grow in FY2020?

Naveen Chauhan: Close to 50% of our business comes from rural and it is maintained on that level right now.

Prashant Raj: The growth trend will be both of them for last year?

Niranjan Gupta: As far as rural-urban is concerned last year as you know the industry declined overall. Within that one would say that rural would have fared slightly better than urban I think at this stage that is what is relevant, as we move forward this year rural and semi-urban as of current indicators are likely to do much better than urban.

Naveen Chauhan: Just to add I think if we look at historical data rural has always been slightly higher in terms of the growth rate.

Prashant Raj: Sir my second question is on the distribution and channel size could you just update us in terms of when you close in FY2020 in terms of the channel and touch point? Second, in terms of further expansion strategies and considering that you are saying that the adoption of digitization has gone to such an extent and you have been contracting of deliveries how are you thinking about that expansion now in this new era?

Niranjan Gupta: Our focus has been more on getting more throughput out of our network, as we know we have the biggest network amongst all the players including our dealers and ARD network etc., and therefore focus is not so much on the expansion, but the focus has been on the throughput and obviously now the throughput should see further improvement as you go with a combination of digital and physical.

Naveen Chauhan: In terms of physical representation of our network, I think we are there pan India. The focus a) as we said this is more on throughput and b) in terms of strengthening our dealerships so that is the direction in which you are moving this year.

Prashant Raj: So can we assume that this being the additional lever, incremental network expansion on a physical basis will be lower than, say in the previous year?

Naveen Chauhan: So, this is a constant phenomenon wherein we look at, we review people and there are replacements, and so it is not a major thing the normal course of time that where we do we will move forward in that same direction.



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Prashant Raj: Thank you.

Moderator: Thank you. I now hand the conference over to the management for closing comments.

Niranjan Gupta: Thank you very much for being on the call. Again just to sum up, our restart of the operations has been very rapid. More than 90% of our dealers have opened up, a lot of them, majority of them have reached substantial percentage of the pre-COVID retail sales already. Our production is ramping up, all our factories are open, all our vendors have opened and we are scaling up very rapidly. We will continue to do dynamic management as we move forward. We are geared up fully to capitalize on any opportunity that present themselves. There are headwinds and tailwinds, rural and semi urban likely to do better than urban. There are positive factors which we are geared to capitalize and Hero as such we have a strong balance sheet and liquidity position and a leadership team and management team to navigate through these times. We appreciate a lot on the interest shown on this call and the questions and thanks for that. If there are any questions which are unanswered we will be happy to take it offline through Umang. Let us move forward with positivity and with optimism. Thank you and thank you all.

Naveen Chauhan: Thank you very much.

Moderator: Thank you. On behalf of Emkay Global that concludes this conference. Thank you for joining us. You may now disconnect your lines.