



“Hero MotoCorp Limited Q1 FY-21 Earnings  
Conference Call”

**August 14, 2020**



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**MODERATOR: MR. CHIRAG SHAH – EDELWEISS SECURITIES LIMITED**



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**Moderator:** Ladies and gentlemen, good day, and welcome to the Q1 FY21 Earnings Conference Call of Hero MotoCorp Limited, hosted by Edelweiss Securities Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '\*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Chirag Shah from Edelweiss Securities Limited. Thank you and over to you sir.

**Chirag Shah:** Thank you, Faizan and good morning, everyone. On behalf of Edelweiss, I would like welcome you all to Q1 FY21 post-results conference call of Hero MotoCorp. We thank the management for giving us the opportunity to host the call.

I shall now hand over the call to Mr. Umang Khurana – Head Investor Relations, for initial comments and introduction and then we can start with Q&A. Over to you, Umang.

**Umang Khurana:** Thank you so much, Chirag. Thank you, Edelweiss for hosting the call. Hello, everyone, and welcome to the Q1 FY21 investor call. In these rather interesting times, we are pleased to e-meet you, again. We have with us today from Hero MotoCorp – our CFO, Niranjana Gupta; and our Head of Sales and After Sales, Naveen Chauhan. We will begin, as usual with our first set of comments from Niranjana and then open it up for Q&A. Over to you, Niranjana.

**Niranjana Gupta:** Good morning, ladies and gentlemen. Welcome to Hero Q1 earnings call. I hope you, your families and colleagues are staying safe and staying healthy. Q1 has been truly an unprecedented quarter. We use unprecedented many times, I think nothing signifies unprecedented more, than this quarter. The quarter faced one of the strictest lockdowns, as a result, a large part of the quarter was not operational for everyone.

As you know, we, in Hero, decided that this is a humanitarian crisis and hence ensured that safety and well-being of our employees and our stakeholders was of prime importance. Further, we also decided to protect jobs and salaries even when there were no revenues.

Despite the truncated quarter, amidst ramp-up and supply chain challenges, we still were able to deliver a positive bottom line as you would have seen from our release yesterday. This was made possible through all-round efforts on sales, cost, cash and productivity. In fact, if lockdown period cost of around Rs. 250 crores was to be added back, the Q1 EBITDA margin would have been 12%.

Our balance sheet continues to stay strong. In fact, dare, I say, even stronger now, as through very efficient working capital and liquidity management, we have been able to deliver a cash flow for the quarter in excess of Rs. 1,000 crores for Q1. Yes, you heard it right, cash flow more than Rs. 1,000 crores for Q1 on the back of PAT which was Rs. 60 crores.

What's very heartening to see is our solid gain in market shares. In domestic market, we have gained over 500 basis points and continue to maintain that lead in July as well. This has been



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made possible through early restart, rapid ramp-up and proactive priming up of our entire ecosystem from dealers to vendors.

Further, the BS VI products have received extremely good feedback from all quarters, the customer is saying so. And talking of extremely good feedback, our premium product, Xtreme 160, is in the market now and early feedback has been very encouraging. This should help build our presence rapidly in the premium segment moving forward.

Let's now come to the economy; the macro perspective. As far as the recovery of economy is concerned, we stay positive. There are lots of positive indicators. As you would have seen some indicators which we track: E-way bill and GST collections are at 85%+ of pre-COVID levels. Fertilizer sales growth for July has been fantastic. Tractor registration is up on year-on-year basis. Monsoon, as we know, is tracking at normal so far on the long period average. And the crop planting is ahead of schedule. Clearly, the rural and semi-urban parts of India are leading the charge and I'm sure urban India will soon join the race as well.

Talking about the auto sector; the underlying long-term opportunity, which we have been talking about always, remains strong due to under penetration. In the short term, a clearly visible trend, toward personal mobility versus shared mobility, will accelerate recovery in our view. We are gearing up for a good festive season and we believe that the auto sector and within auto, Hero will continue to lead the charge for economic recovery.

With this, we open up the floor for your questions and suggestions. Over to the operator.

**Moderator:** Thank you very much, we will now begin the question and answer session. The first question is from the line of Nitin Arora from Axis Mutual Fund.

**Nitin Arora:** My first question is the kind of retail market share increase you have seen, what is the strategy to sustain it? I mean this has come after a long time for any auto company, especially in the two-wheeler industry. How do you see this sustaining? Because we keep hearing that the market share is increasing because of other people facing supply chain issues, so I just wanted to understand from you this kind of a solid increase, what is the strategy to retain it and maintain it? That's my first question. I'll take up one more.

**Niranjan Gupta:** Thank you, Nitin, for the question. I'll give a quick answer and I'll hand it over to my colleague, Naveen after that. Firstly, I'm glad that the questions have moved from, when are you going to improve market share to how are you going to sustain market share? So I think that's a good question and it's hearting to see the trend of the questions changing.

Look, there are multiple parts to it. Even when we say that there is a relatively rapid restart and ramp up, that also displays the supply chain capability, the strength of the company, which has helped us surge ahead. The second part, of course, is about the BS VI products, which have been received extremely well. As you know, in some of the models, we maintained what it was earlier



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as the core. While on some of the other models like Passion, they have a completely different design and the style, which have been received very well. And thirdly, we are launching new premium products as well. So we are quite positive about sustaining market share ahead.

Let me hand it over to Naveen to add more color.

**Naveen Chauhan:**

Thank you, Niranjan. So one particular point that I picked up from your question was about retail market share and not the dispatch market share. I think that's very interesting to hear. So if we look at the retail market share, which is coming to public now and if you go back 3-4 quarters, I think every single quarter, there has been some gain that we've been making.

Second piece, rural, which if you look at the recent quarters, has been leading growth over the urban market. In the recent time that lead has gone up and you know our rural play, that's very-very strong. If I look at the kind of investment that we have done in rural market, last year we had a 50,000 villages connect program and we connected with more than 55,000 villages, on a digital platform called Sarathi which our rural executives carry with themselves. So that has given us huge imprint in the rural market. If I look at premium which is giving us a lot of headroom and with the Xtreme 160, the kind of rave reviews that we are getting, we are very-very confident about this product.

Thirdly, if we look at our BS VI products, which Niranjan also stressed upon during his initial address, we are getting significantly positive responses. Passion, in a new avatar, is taking us to different markets. We have refreshed Super Splendor and Glamour. Glamour, as you know, was a product more popular in certain select pockets. It is gaining in new markets as well. Take for example MP and Rajasthan, wherein, in 125cc our numbers were very less. In the recent months, we are doing 5 times of those numbers, so this all augurs very-very well. We have good products, positioning is right in terms of pricing, and we are very-very confident that we are going to sustain growth. Thank you.

**Nitin Arora:**

One question, a follow-up here. In terms of supply chain, in terms of production, if you can throw some light where we stand now and is it a clear path in terms of doing dispatches? Just last question from my side.

**Niranjan Gupta:**

Yes, Nitin. So on supply chain, also, we have been ramping up. As I had mentioned, I think in the previous call, obviously, the demand was accelerating faster. And then supply chain has been, again, moving. In fact, I would say that our capability on that front is almost back to almost 80%- 90% of pre-COVID levels already. And the teams are doing a tremendous job there, whether it is a labor issue, whether it's a logistics issue, whether it's a liquidity issue, you name it, we have been able to ramp up very fast. And every successive week, the production and the supplies are ramping up faster than before.

**Naveen Chauhan:**

And just to add to what Niranjan said on the supply chain side, I remember, we conducted a town-hall with vendors early in the month of June, and we had indicated a figure of 5 lakhs production. Everybody was taken by surprise. But then internally, through customer feedback,



we were confident. And that level of confidence was given to vendor community and as a team, we are driving it well.

**Niranjan Gupta:** But yes, just as an add-on, which I think we have talked about earlier as well: From a government and authority perspective, it is important that these intermittent, local micro lockdowns do not happen because that then disrupts the demand and the supply cycle. So I think that's important. Otherwise, I think the underlying demand is very strong.

**Moderator:** We will take the next question from the line of Aditya Makharia from HDFC Securities.

**Aditya Makharia:** I think it's almost been a decade since we've come out with such a good lineup. Is there any market share targets we're looking at specifically for our bikes given that we have such a vast network on the premium side?

**Niranjan Gupta:** So Aditya, let me again take this up, and then maybe Naveen can add a bit more color. As we had mentioned earlier, that the precise mistake that we had done earlier was to put a target just as we were launching. And then one would declare a model as a failure or a success and then withdraw and then move on to another product. Our task in premium is to have a complete lineup, yes, of premium portfolio, which we have been talking about from last year itself. We talked about in Hero World as well. And that's what we are embarking on. And you see, that's happening with XPulse, the Xtreme 160, and you will see more and more action moving forward every year on this. So we're going to complete the lineup horizontally as well as vertically, which means across different segments and across different CCs.

Clearly, the first task would be to quickly move towards a double-digit market share and then, take it on from there on. But primary objective is to have absolutely right fantastic products, which should be loved by customers. And have a lineup, which should then make us a credible player in the premium segment and market share will follow. Naveen, you want to add anything?

**Naveen Chauhan:** Sure, Niranjan. I would only say that whatever we had planned initially in terms of market share, we are moving it upwards. Purely, this is based on the kind of response that we are getting and the product, which is positioned in the belly of the premium market is getting rave reviews. On the second side, in terms of the brand, we have XPulse, which in its own market along with the rally-kit that we have given is again doing fantastically for us.

**Aditya Makharia:** Just one question on this whole debate around E-carb and FI for the entry bikes, so servicing of FI is supposed to be more expensive vis-à-vis the other technology. So just any thoughts which you could share?

**Niranjan Gupta:** It's very interesting how the debate on E-carb versus FI keeps changing. So let me take you back, Aditya to where it was because in every quarterly call and investor interaction, we've been receiving these questions. The first one was around, look, E-carb is going to be cheaper than FI by almost 50% and how will Hero counter that? Jury is out in the market. The E-carb price delta is same as FI price delta, right? So I think that's the first thing that we've done a great job in



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ensuring that as far as the price delta is concerned, that is not compromised at all, and that's actually giving us an advantage.

Secondly, on technology, FI is a globally accepted proven technology, very clearly. And plus, this technology is also adaptable to OBD II very easily. As far as E-carb is concerned, there would still be a few ifs and buts that need to be sorted out, whether it's the cold start -stop problem, whether it is fuel efficiency, whether it's fuel mixture, whether it's OBD II compliance. Of course, that technology will also evolve, but FI is already there. E-carb will have to follow through to actually adapt. So superior technology at the same delta absolutely gives us complete assurance that the strategy that we've followed was absolutely on dot. As far as when the servicing is concerned, that's only the remaining portion, which is the next portion; we don't believe that FI servicing is any more difficult than E-carb or any easier than E-carb. Honestly, the amount of training that we have imparted to the local technicians and to the entire ecosystem in the run-up to BS VI, which started almost a year back, gears us very well. Plus, please also understand that large part of the market is actually FI. So the ecosystem on FI replacement, FI servicing, FI parts will develop much-much faster than a technology which is occupying just probably 5% or 10% of the entire industry. And that you understand, at scale as the industry moves forward, it will be FI for which you will have servicing available than E-carb actually. I think that debate is almost completely behind us. And we were convinced earlier, and we've been proven right now that the FI strategy was the right strategy.

**Naveen Chauhan:**

And just to add that to Niranjana, I think that what Niranjana explained was about the technology superiority. If I look at customer lens, the customer is looking for the right value in terms of the ride experience, maneuverability and for few rupees here and there, customer is not going to move out. And that's what we have recently seen, if you look at the kind of traction that we are getting and our market share is an indication of that.

**Moderator:**

The next question is from the line of Karthik Chellappa from Buena Vista Fund Management.

**Karthik Chellappa:**

A few questions from my side. The first one, can you share what has been the share of sales which have been financed this quarter and what was Hero FinCorp's share within that? And how is the financing situation on the ground in terms of number of financing partners that you have and the amount of liquidity they are providing for the same?

**Niranjana Gupta:**

So I will provide both a combination of a quantitative response and a qualitative response to it and then any follow-on data, I'll request my colleague, Umang, to actually send you off-line. As far as financing is concerned, again, it's early data because we've had sales of June and then part of July. The different geographies have been ramping up differently. Rural, semi-urban have been ramping up faster. Urban has to follow, and we know the penetration in rural and semi-urban is lower and in urban financing penetration is higher. So I think it will be difficult to actually take a weighted average number and derive anything out of it. But Umang will share details with you. All I can say is most of the financiers are back in the business. They've been gradually coming back. Of course, FinCorp was always there. The rest of the financiers have



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been gradually coming back in the business. As far as FinCorp is concerned, they have financed in this quarter 1.35 lakhs vehicles, which is pretty good and denotes the support that the company is providing.

**Karthik Chellappa:** My second question is, recently there have been some changes allowed in the leadership team, which is also there in your press release. Can you give us some color on at a strategic level and operational level, what does this mean for Hero FinCorp in terms of areas of focus or areas of improvement that we can expect or look forward to?

**Niranjan Gupta:** I guess you mean Hero MotoCorp, not Hero FinCorp?

**Karthik Chellappa:** No, Hero MotoCorp, Hero MotoCorp. The leadership teams strengthening at Hero MotoCorp.

**Niranjan Gupta:** Absolutely, I think this is another one where there have been discussions, there have been questions from all of you around what are we doing with the leadership? What are we doing with internal grooming? And now you can see and we have been saying that, look, there are lots of actions which have been taken and are in progress to develop internal talent. And which is what you see as a result of that, you see the announcement, where you can clearly see there are three: There's Ashutosh, there's Mahesh, there's Ravi, who are taking on larger roles internally, they have been groomed internally with a wealth of experience. And equally, you see some members of the leadership team who are rotating and taking on different roles. So I think this is displaying firstly, the versatility of the talent, and secondly, the internal grooming that at we've been doing. So these initiatives auger extremely well for the leadership capability moving forward as well.

**Moderator:** The next question is from the line of Gunjan Prithyani from JP Morgan.

**Gunjan Prithyani:** Just shifting the discussion a bit to the margin. On a sequential basis, if I see there's been a margin decline. Now I understand this is a bit of an-ad hoc quarter but if you can just give some color on how much of this drag is due to inventory adjustment? How much is it because of BS VI? Any color around how we should be thinking about gross margins given that it's seen BS VI transition already now?

**Niranjan Gupta:** So Gunjan, this is perhaps the wrong quarter to actually analyze margin variance because honestly, there is no corresponding quarter. That's my simple answer to this. This is a quarter which is being built from the start with a large part of the quarter under lockdown. I think what will help which we have said is that if we take the lockdown period cost, fixed cost, when the operations were not functioning and you remember, in our March 31<sup>st</sup> call, we had talked about our lockdown period cost being around Rs. 200 crores per month. We have assessed what our lockdown period cost was because April was entirely closed, May was partially closed and then June is when we came back to 70%-80% of the normal levels. So if you add around Rs. 250 crores to the EBITDA number, which is the lockdown period cost because that period did not have any revenue. So if you actually add that back, then you get an EBITDA margin of 12% for Quarter 1. I think that would have been a more comparable margin for Quarter 1 than what you see in the numbers because those numbers are based on a truncated quarter where you have the



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fixed cost for the entire quarter, but revenue, which is only for a very brief period. So I think that's basically as far as one can go with the ratios for this quarter. I hope that's helpful.

**Gunjan Prithyani:** So that I'm clear on this, what you're implying is that if the EBITDA margin of this 12% is more a normalized margin under BS VI and from here on, it is more going to be about the operating leverage. Is that understanding correct?

**Niranjan Gupta:** Possibly, yes.

**Gunjan Prithyani:** The second question is around the demand side. Now clearly, the momentum that you're talking about is quite encouraging. Is there any sense that you can provide on this personal mobility and pent-up demand? What is really the key driver? From the perspective, when you're seeing the incremental demand in the month of August, are you seeing demand tapering off or you seeing the momentum sustain and personal mobility is a greater driver than the pent-up demand? I'm just trying to get more color on the demand.

**Niranjan Gupta:** So Gunjan, I'll take this first, and then I'll ask Naveen to add more color on this. If you remember in our last call, we were cautious. And we said that, right now, there is some uncertainty, let's wait and watch what happens, whether the demand is sustainable or not. We have seen the trend continuing in July. We have seen the trend continuing in the first half of August. Obviously, if something is pent-up, the pent-up gets fulfilled very quickly. Pent-up demand does not last forever. So for the first month one can assume, maybe it was pent up. But as it continues, one is feeling delighted that there is an underlying fundamental demand, which is there for two-wheelers in India. And we've been talking about it. It's an underpenetrated sector. India is a story of many Indias. There are different needs that people have. Two-wheeler is a means of mobility plus an income enabler. So there are multiple drivers of two-wheelers that we talked about at "Hero World" and probably all our investor conferences because unless you have that underlying strong belly, then this kind of demand doesn't pan out. So I think we have again been happy that, that's first big reason as to why one can see the resilience. Second, of course, is personal mobility. One can see, one can sense psychologically or otherwise, that people are moving away from shared mobility to personal mobility. Also, the availability of public transport has been less. So you can see more and more people adopting two wheelers because this is the most affordable means of moving from shared to personal mobility. So that's also panning out, and which is why we are positive about what we are doing. The other thing, of course, is that the BS VI product has been lapped up very well. Because remember, for the customer to buy, the product itself has to appeal to them as well. So I would say besides the technology change, the BS VI products also have been lapped up very well, and that's also contributing to the demand other than, of course, the rural and semi-urban economy that we talked about. Let me now hand it over to Naveen to add more color.

**Naveen Chauhan:** Thank you, Niranjan. So I'll break this question into two parts and look at both urban and rural. As was amplified clearly by Niranjan, the fundamentals of demand on the rural side continue to be very strong basis multiple factors playing out. The lockdown was holding up the demand for





a brief period. Moment the lockdowns opened up, demand came back and we saw a V-shaped recovery in case of rural. And hence, the pent-up as per our assessment is over on the rural side.

On the urban side, as sentiments were low due to a higher level of unemployment, there may be some bit of pent up demand which will manifest in the festive season. So that's our assessment on the pent-up side. As far as the personal mobility is concerned, in the last call, we've said that in our own internal survey, at a current level, 10% to 12% is what preponement is happening on account of the personal mobility. We've done a deeper survey and we looked at what kind of customers are actually coming and buying. And the contribution of the customers who are preferring to go to work, their contribution has jumped up significantly. And hence, there is an element of personal mobility, which is coming into play.

**Moderator:** The next question is from the line of Ronak Sarda from Systematix.

**Ronak Sarda:** You just highlighted on your market share gains. Two-part question to that; one, obviously, scooters have been lagging the overall motorcycle recovery. So once the urban markets open up, how do you see scooter demand? Do you think that can also see a sharp recovery and the other part is in a way, how do you see your top 15 or 20 markets? Are those urban or semi-urban or rural and if they're urban, how have those behaved given the lockdowns are more stringent in the urban parts?

**Naveen Chauhan:** So the first was about scooters coming back. Yes, with urban opening, the contribution, which has come down significantly on the scooter side will definitely go up. But interestingly, in the recent times, we've seen our scooters are doing very well. Pleasure, which if I look at it last year, there were certain southern states, six states which were contributing to close to 75% of our volumes, we have added another 8 states to contribute to 75% contribution to the Pleasure market and Pleasure is now going pan India, which is part of our strategy.

In 125cc segment, Destini continues to do well. In fact, in the month of July, sequentially, we've had more than 30% growth in the Destini numbers. With urban markets opening up, the scooters will come back and we are hopeful the kind of performance that our BS VI products are giving, we will have a positive impact.

**Niranjan Gupta:** Thank you, Naveen.

**Ronak Sarda:** And the other part was how do you see your 15 or 20 markets, let's say, are those mainly urban or semi-urban, rural and how have they behaved in Q1 FY21 versus last year?

**Niranjan Gupta:** It will be difficult to give out a number, Ronak. But our top 20 markets will be in semi-urban and rural. Naveen, you want to add anything?

**Naveen Chauhan:** Yes, so our top markets, if we look at primarily being UP is one dominant market that we have. Bihar is another, which went for some lockdown in the month of July. But once the lockdown



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opened up, we see the entire recovery coming back to us. So if you look at main urban centers, it's going to be a mixed view at this point of time.

**Ronak Sarda:** Last question on the price hikes. I think we have taken some price hikes in this year. If you can just highlight what's been the average price hike, I mean YTD FY21?

**Niranjan Gupta:** So we haven't taken it across the board. We did take some price hike in July, which was again, based on our competitive positioning, which we took on HF Deluxe and a couple of other models. And Umang will offline give you all the details.

**Moderator:** The next question is from the line of Aryn Pirani from CLSA.

**Aryn Pirani:** I have two questions. The first question is on the momentum of retail and production in August because we discussed these mini lockdowns happening, so the month-on-month momentum that we are seeing in both retail and supply is improving. Does that come under a bit of softness in August? So how is supply and retail momentum progressing given all these lockdown happening?

**Niranjan Gupta:** So what is happening, Aryn, is obviously, as we have said, that the mini lockdowns do disrupt the rhythm and the momentum for sure. However, what we are seeing is that whenever you have a 1 or 2-day lockdown, the moment it opens up, for instance, when you have weekend lockdown, then the moment Monday comes back, then the sales come back, yes, and it recovers. So I think it's more about predictability of these lockdowns versus the uncertainty. And obviously, any disruption then disrupts the rhythm.

As far as supply side is concerned, obviously, if there are lockdowns where a part gets completely closed, which hasn't happened, by the way, then, of course, there will be disruption. And we do hope that, which we have also mentioned and SIAM has also taken that up with the government, that we should not disrupt the supply, we should take all precautions and the actions, but we should not be closing down a zone or something. Otherwise, the supply disruptions will again restart. Naveen, you want to add any color on the retail side on the lockdowns?

**Naveen Chauhan:** So on the retail side, if we look at August, and that was your key question, with festive now coming in, we see some positive sentiments also kicking in. The second, the whole premise was that the fundamentals remain very, very strong in the rural side, which continue to trigger demand. And hence, at this point of time, we see that the positive momentum, which began in June, carried over to July and continues to be there in August.

**Aryn Pirani:** And even on the production side, you should be able to continue ramping up to meet demand, right?

**Niranjan Gupta:** Yes. Absolutely.



**Amyr Pirani:**

And my second question is actually on profitability. If I look at your gross profit per vehicle, actually it has been pretty stable in the last 2-3 quarters despite the BS VI changeover and raw material costs increasing. So basically, I think your pricing has just kept pace with your raw material cost increase. And even on the other expense side, we have seen a significant cut. So my question is on the gross profit, absolute gross profit level, should we expect this to now continue being stable or improving? And on the other expense side, how much of the cut that you have seen in 1Q is sustainable and how much is a one-off?

**Niranjan Gupta:**

So I mean, firstly, again, I would repeat that please do not take Quarter 1 as a base for extrapolation, which is why we went out and we said that to help out, look, the period fixed costs were these, which was locked down. If you add that back, Q1 would have been 12%, and that's more a number that one can then start extrapolating from there on.

As far as the gross profit is concerned, material costs BS VI, you are right and which is what we have said that we have passed on an absolute level. So therefore, the per vehicle contribution of the gross margin has not been compromised, as far as our pricing is concerned. As far as our overheads and other expenses are concerned, if you remember in the last call also we said that because of the situation, we have rolled out several initiatives on cost front. One is LEAP 2, which has double the target of LEAP 1. LEAP 1 had a target of around 40 to 50 basis point while LEAP 2 targets 100 basis point in savings for the year. And we had also talked about a couple of initiatives on that front.

The second part is the CAPEX phasing and CAPEX cuts, which has helped the liquidity and the cash flow. And the third part is Project Mileage, which is applicable to all the overheads that we have talked about, and is reducing those overheads. While I don't want to give out a number on that but you can see some of those things coming through and you will obviously get a more sustainable picture as you move towards Quarter 2 and Quarter 3. But all elements of costs are being looked at, some are low-hanging fruits like travel, hotels, conferences, etc. which has moved to the digital format and others where we have taken action on how to improve productivity of spends. So for every single spend, we are looking at ROI of spend. Normally, you look at return on investment of capital spend, we are looking at the ROI of OPEX spend on every line item that we are incurring.

**Amyr Pirani:**

And just lastly, can you share what are the inventory levels looking like right now?

**Niranjan Gupta:**

So Amyr, on the inventory level, while I won't give out an exact number, but as I mentioned, the demand has been outstripping the supplies. So that's a good-happy situation to be in. Some buildup we have started. It is still below the normal levels that we would like to operate at. As we move forward, August-September, we would like to build it up for the festive, which is what the plan is.

**Moderator:**

The next question is from the line of Pramod Kumar from Goldman Sachs.



**Pramod Kumar:** My first question is on the ASP side and rather on the sustainability of the ASP side. I understand this quarter is not a reflective quarter. You'd have had higher non-vehicle revenues. But are these kind of elevated ASP levels sustainable? And do these also include the full pass-through of the BS VI pricing actions from your side?

**Niranjan Gupta:** And firstly, I think before answering your question, I do remember all your earlier questions. And I hope now you are satisfied where your questions were relating to earlier the engine performance, whether we'll be able to do that or not? Whether the BS VI, will come on time or not? Whether our products will succeed or not? Whether the E-carb will play a spoil sport? So I hope you're satisfied on all those fronts with our products actually roaring in the market on all fronts, whether it is the capability of the engines, FI, etc. So now I come to your average selling price question.

Selling price, as far as if you look at the parts revenue which is included, that's also sustainable. It is around 10% of the revenue included in Quarter 1. FY20 was also around 10%. So we don't see that changing much. In fact, it improved from 8.5% in FY19 to 10% in FY20, and we see actually more potential in the past business. And as you know, that's the higher-margin business moving forward. So that actually should help as an uptick on the ASP. Other than that, from a mix perspective or the selling price, it's definitely sustainable. As you know, we were the first one to roll out the pricing of BS VI products in the market, which actually set the tone. And I remember at that time also there were questions about would industry under-cut, would there be a pricing war? None of that has happened, and I'm really glad that there is a very sensible, rational pricing level that has prevailed. And you have seen actions from everyone. Everyone is maintaining a sensible price, which ensures that customer gets value, while equally the companies also are able to deliver profitability. So I honestly don't see any issue as far as sustainability of ASP is concerned.

**Pramod Kumar:** And yes, I think it's been a great ride, so far for you guys with the BS VI transition and also rural buoyancy and let's wait it out for a few more months from scooters which you said. On the premium motorcycle as well, I think I wish you all the luck there. And Niranjan, the second question is on the Hero FinCorp side. You've seen recently they did the investor presentation, talked about something like a 10% GNPA and a 30%+ Moratorium book. And given the financials there, do you envisage that there could be another round of capital infusion there, which may be required in the next 12 to 15 months? And how do you see Hero MotoCorp's strategic interest there as a business, because I believe your shareholding is going up with the latest investment round. And are you open to increasing your stake further in the financing arm?

**Niranjan Gupta:** Pramod, our shareholding is not going up. Our shareholding remains within 41% to 42%. The shareholding has gone up in Ather. It's not gone up in FinCorp. As far as FinCorp is concerned, they are doing well. As you even saw from the two-wheeler financing numbers, that's been a great performance. Their loan book or the AUMs will start growing after the quarter as obviously right now they are balancing it out. We don't see any need for capital infusion in the short term beyond the call money, which is there from the last raise that they did in the month of March.



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Relatively, I would say that FinCorp is amongst the top NBFCs. The NBFC sector will see consolidation as there are large number of NBFCs, if you've been tracking them. And what will remain probably are the top 5-7 or top 10 and Hero FinCorp is up there with its parentage, with its asset quality and with its performance. I don't see a 10% GNPA number, by the way. The GNPA's, the NPAs have gone up close to around 1% in the last quarter. In fact, in Quarter 1, also despite all those provisioning, they have declared a profit, which is again very resounding the way FinCorp is being managed, Pramod.

**Moderator:** The next question is from the line of Sonal Gupta from UBS.

**Sonal Gupta:** Could you first share the spare part and other operating income revenues for the quarter?

**Niranjan Gupta:** So as far as other operating revenue for the quarter is concerned, that is Rs. 67 crores and parts revenue for the quarter is Rs. 293 crores.

**Sonal Gupta:** And just in terms of like the other question I had was because already everybody starts talking about retail and a lot of questions around retail and then we've had the industry dealer association, etc. also publishing stuff. So I just want to get your thoughts on how do you see the VAHAN data and how accurate is it in terms of reflecting the retail trends that you're actually seeing? So I understand there could be a lead lag between the registration of the vehicle versus when you sort of think of it as a retail but just your thoughts because a lot of people are looking at that and then just trying to say that things are not improving, so any thoughts around that?

**Niranjan Gupta:** I think like you said, there's a question of lead and lag which happens. And there could be some parts which are not covered by VAHAN. So VAHAN is not 100% there in India across geographies, for instance, parts of MP, AP and Telangana are not covered. So the coverage is not full. But wherever there is coverage, there the data would be reliable. So I think the important point is that over a sustained period, if you look at it, our sales and retails, then that will be correlated to the market share because you cannot either keep on building inventory or you cannot keep reducing the inventory. So I think this is the data that with a lead and lag should match and you need to discount the percentage coverage, which is not there.

**Naveen Chauhan:** Just a final view, because the VAHAN data is a registration data. And hence, from the date of retail to the data appearing in VAHAN portal, there will be a lag. But as Niranjan said, if you look at over a longish period of time, you'll get a fair view.

**Sonal Gupta:** And just the last question, if I could ask, was clearly, you're very successfully transitioned to the BS VI and our checks are indicating the same as your feedback is, so congratulations on that. But now that we are over this hump in terms of the major BS VI transition and clearly, the investments that the company has made on the R&D side, so do we now see a more regular flow of new products coming through from the company, like one or two new launches every year? Is that what we can expect?



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**Niranjan Gupta:** Absolutely, you've hit the nail on the head. In fact, talking about R&D spends, we did talk about that over the last 5 years, our R&D spends were 2X to the nearest competitor. And that has helped. We've been ramping up R&D capability and a lot of you were there at Hero World to see for yourself the capability of R&D. And then, of course, on ground products of BS VI success has actually demonstrated that capability that we have been talking about. Obviously, over the last 3-4-5 years, the pipeline has been building on the products. And you're absolutely right; you will see more and more launches coming every year now as we build the pipeline, every year now something will come out from that. Even in the last year, for instance, FY20, we've spent, on R&D, if I remember right, more than Rs. 700 crores, which would be almost 30% - 35% more on a year-on-year basis on R&D spends. So we've been really, really front loading the spends on R&D, allocating our capital where it is required, focusing on the long-term capability and the products and branding, which is what matters for long-term sustainable value creation.

**Moderator:** The next question is from the line of Pramod Amthe from CGS-CIMB.

**Pramod Amthe:** Congrats to the entire Hero team for getting the production up and running at the fastest pace without much media fanfare. My first question is with regard to the supply chain. Specifically, if we have to look at the first quarter where you had substantial increase in imports possibility because of BS VI and there was a tension across the border, how have you pulled through the same in the short term? And second, what is the import content now and as part of your LEAP program, how do you plan to reduce it in the medium term?

**Niranjan Gupta:** So firstly, thanks for the appreciation of the performance. As far as the sourcing is concerned, look, our overall import content would be less than 10% of our total material consumption. And then amongst that, of course, then you have China. And the China dependency is not just for us within that but it is across the auto sector, not only locally but actually globally. There are some things like magnets, etc. where China supplies 90% of the global requirement by virtue of the scale. So what is important is managing the supplies through a combination of either inventory building or asking the Chinese suppliers to set up shop either in India or in other countries which is what we have been doing. So there are multiple strategies which are working; one is localization; second is inventorization, which is the warehousing and inventory and third, is asking those suppliers themselves to set up shops in countries other than China. So I think that's the de-risking model that we are following. In the end, you have to trade-off between the cost and supply security. And therefore, we are judiciously doing that and managing it well.

**Pramod Amthe:** And second, with regard to the way the recovery has happened in rural versus urban, any big change in mix as rural versus urban you have seen in first quarter for your sales? And do you expect it to remain sticky for the rest of the year?

**Niranjan Gupta:** So if you see the mix that we have seen, for Quarter 1, Entry overall, and I'm talking about the total dispatches, is around 30%. And Deluxe is around 70%. Now this is not way off from our mix that was there in FY20 as well. So we would say, yes, in certain parts, in certain geographies, certain local markets, the mix would move more towards HF Deluxe, more towards Splendor,



less towards Passion. But overall, if you see on totality on a national basis, if I were to look at the numbers, the mix between Entry and Deluxe broadly remains the same.

- Moderator:** The next question is from the line of Jinesh Gandhi from Motilal Oswal Financial Services.
- Jinesh Gandhi:** Hi sir. Congrats on a reasonable set of numbers in tough times. My first question pertains to the ongoing verdict from the Supreme Court on the BS IV inventory. Does it mean that we'll have to take a hit on our books for the inventory outstanding as on 22<sup>nd</sup> March or so?
- Niranjan Gupta:** No, I don't think so. We'll have to study the order. The order pertains to unregistered vehicle. First of all, the unregistered vehicles itself were very low. So we don't hold any inventory of BS IV. As far as the dealer and the market is concerned, the unregistered vehicles were to the tune of probably 25,000-30,000. And it is pertaining to that, out of that some portion which is in VAHAN, then that's what Court seems to have allowed. But we will need to study the order and then take appropriate action.
- Jinesh Gandhi:** And secondly, with respect to this quarter, if I look at our staff cost that has reduced considerably. So is it that this is a normal run rate? Or we should revert back to that Rs. 430 crores, Rs. 450 crores of quarterly run rate which you've seen earlier?
- Niranjan Gupta:** As I mentioned, Jinesh, earlier also that quarter 1 numbers and ratios should not be extrapolated simply because it's an unprecedented quarter. Which is why we tried to give out what would have been the EBITDA margin, so which at least gives you some signal on what the starting base is for Quarter 1. As we move forward to Quarter 2, then you will get more sustainable numbers on all line cost items.
- Jinesh Gandhi:** And lastly, CAPEX, do we maintain our Rs. 600 crore figure or are we looking to invest considering improving outlook for the demand?
- Niranjan Gupta:** Currently, we are maintaining the same number that we spoke about.
- Moderator:** The next question is from the line of Prateek Poddar from Nippon India Mutual Fund.
- Prateek Poddar:** Just one question, actually a couple of questions. One is, in the month of July, you indicated that demand was 95% peak over. Is it fair to say that the way August is going that, that gap will narrow down further?
- Niranjan Gupta:** Yes, absolutely.
- Prateek Poddar:** Second, you mentioned that demand is outstripping supply, would your production ramp up be or your supply chain or let me rephrase it, would you be confident that your supply chain can ramp up to the desired level so that you guys can reach the desired inventory which you want before festive because festive is a very key season for Hero in terms of sales. So how confident



are you on that the supply chain is able to cope up with the way the demand is and you need to fill up inventory, how confident are you on that front?

**Niranjan Gupta:** We are very confident. As we said, every week, our production is higher than the previous week, if you look at it sequentially. And yes, in the early days demand was outstripping supply. Supply has now caught up, and you will see moving forward that supply is then running ahead of demand, and then there's a buildup happening for festive. We have a detailed plan, which has been worked out and the teams are working very hard and leveraging all the capability and scale that Hero as a company has.

**Prateek Poddar:** And the last question, LEAP 2 plus the project mileage which you talked about, is it fair to say that whenever...I'm just thinking about the medium term, whenever Hero reaches the volumes of what FY20 was, that the margins could be much better, if not same because of these two projects. Is that fair to think about margin trajectory?

**Niranjan Gupta:** Yes, only on account of these two, your conclusion is right.

**Moderator:** The next question is from the line of Shyam Sundar Sriram from Sundaram Mutual Fund.

**Shyam Sundar Sriram:** My first question is on the state-wise or regional trends that we have seen in July and the initial trends in August. So which states for us are firing and which are laggards? So can you give some broad picture on that - for states or regions, whichever way you want to put it?

**Naveen Chauhan:** So if I give you the picture on the region-wise, we've seen very, very strong recovery in the central zone, which is Rajasthan, MP, good double-digit growth in UP. Bihar, before the lockdown happened from the mid of July, it was growing at a good pace. Lockdown held up the pace at which it was growing, but then after it opened up in the first week of August, it has picked up the same pace. Whole East is doing pretty good. Maharashtra and Gujarat, where the sentiments are relatively low, it is yet to pick up the traction. And South is moderate. So that's the assessment of pan-India state level.

**Shyam Sundar Sriram:** And in terms of customer profile, have the first-time buyers sharply gone up with need for personal mobility, any numbers you can share on that? I understand these are very initial days. But based on their initial trends, if you can share any numbers there that would be helpful?

**Naveen Chauhan:** So out of the three category of customers, first-time buyer, additional and replacement, the replacement has gone down significantly and which is quite visible in terms of the quality of vehicle which is coming for exchange in terms of age. The additional has gone up significantly. And the reasons I quoted earlier also that primarily people going to work, where things have opened up in rural, in urban, their contribution has increased significantly. First-time buyers are also higher.





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**Shyam Sundar Sriram:** And from a cost perspective, you did highlight some of the initiatives we have taken. Are there any commodity headwinds we are seeing other than the noble metals, anything that can disrupt us from a cost perspective? And if so, are we positioned to pass on those cost pressures?

**Niranjan Gupta:** Right now, no. I would say, of course, the commodities have bounced back, but they've still not bounced back to the levels or the highs that they were at. For instance, crude you see it coming to around \$45, while the high was \$60, if you see last year. Similarly, aluminum, probably coming to \$1,650 but the high was around \$1,800. So they've bounced back from the low. So right now, we do not see headwind. But as it moves on and global economy, the positive outlook happens, then obviously, the outlook on top line will also improve. And accordingly, the commodities will also bounce back. So I guess, those two factors will neutralize each other.

**Shyam Sundar Sriram:** And even if that happens, we have enough headroom to take price hikes accordingly just to pass on these costs. Is that a fair assumption?

**Niranjan Gupta:** So I think that we have demonstrated in the past as well, our ability to not only pass price hike but actually do a combination of cost optimization and price hike, which is how we have dealt with every bit of cost increase in the past.

**Moderator:** The next question is from the line of Binay Singh from Morgan Stanley.

**Binay Singh:** My first question is, could you give us any sense if you've done any research on what percentage of your sales goes to commercial segments, like food delivery, courier, stuff like that?

**Niranjan Gupta:** Actually, at this moment, it's not significant. But we keep tracking this. And at a certain point of time, we will then do a research and then get back. But it's not a significant part of the overall. It's largely confined to a few pockets as far as this segment is concerned.

**Binay Singh:** And secondly, there is something that we touched upon at the Jaipur event and later on in your annual report also that the company is looking into sort of low emission mobility options in two and three-wheeler category, so any sort of thoughts on that? When do we sort of hear more about Hero doing something on the three-wheeler side? Is there any plan there?

**Niranjan Gupta:** So as you know, we have outlined our vision, which is to be the future of mobility. And we are not confining ourselves to just two-wheeler in our vision. So we continue to work on the other adjacent areas. And as and when we are ready to share something, you will be one of the first ones to hear that.

**Binay Singh:** And just lastly, one clarification. So you are expecting retail sales in August to grow on a Y-o-Y basis, right?

**Niranjan Gupta:** So we won't give a month guidance or a quarter guidance on the numbers. I think what is important is the trend, the positivity, the numbers that are coming out and of course gearing up



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for festive. I think my message to everyone, including our team and everyone is stay positive and stay safe and stay healthy.

**Moderator:** Ladies and gentlemen, due to time constraints, we'll take that as the last question. I would now like to hand the conference over to the management for closing comments.

**Umang Khurana:** Thank you, everyone, for seeing us, and happy to take your follow-on questions off-line. Have a good day and see you soon again.

**Niranjan Gupta:** Have a good day, and have a nice weekend. Thank you.

**Naveen Chauhan:** Keep safe everyone.

**Moderator:** Thank you. On behalf of Edelweiss Securities Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.