



“Hero MotoCorp Limited
Q2 FY2022 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY2022 Earnings Conference Call of Hero MotoCorp Limited, hosted by Nirmal Bang Equities Private Ltd. 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. Rahul Arora from Nirmal Bang Equities. Thank you and over to you, Mr. Arora!

Rahul Arora: Thank you Margaret. Good morning, ladies and gentlemen. On behalf of Nirmal Bang Institutional Equities, I welcome you all to Q2 FY2022 earnings call of Hero MotoCorp. The management this morning will be represented by Mr. Niranjana Gupta, Chief Financial Officer, Mr. Naveen Chauhan, Head Of Sales & After Sales, and Mr. Umang Khurana, Head of Investor Relations & Business Support. At the outset, I would like to thank the management for giving us this opportunity to host them. Season’s greetings for Diwali and New Year to all the participants and the management. I do hope everyone is keeping well and safe in these trying times. I will request the management to commence the session with their opening comments, subsequent to which we could open up the floor to the participants for Q&A. So thank you once again, and Umang, over to you.

Umang Khurana: Thank you Rahul for hosting us. Trust everyone is keeping safe, and a very happy Diwali to everyone as well. Welcome to the Q2 FY2022 post results investor call. As Rahul just mentioned, we have our CFO, and Head of Sales & After Sales on the call. Thank you for sharing your Saturday with us. We will begin with opening comments from Niranjana and then open the floor for Q&A. Over to you, Niranjana.

Niranjana Gupta: Thanks Umang. Thanks Rahul. Namaste to everyone. Thank you all for attending our earnings call and greetings of festive season to everyone. You would have seen our results announced yesterday evening. We delivered 14.4 lakhs of volume, ₹8,450 Crores of revenue and net profit of ₹794 Crores, with strong recovery in EBITDA margin from 9.4% in the previous quarter to 12.6% in the current quarter. Let me just talk about a few highlights amongst many which are there, and this time let me start with global business. We are all delighted with the progress that global business is making with annual run rate which should cross 300,000 comfortably versus the earlier run rate of 200,000 which was there for quite a few years. We still have a long way to go but we are confident that our revised GB strategy is working well, and it will be a key growth driver in future. Secondly, let me touch on the parts business, the parts, accessories and merchandise, we have clocked the highest revenue of ₹1,141 Crores, registering 40% growth on year-on-year basis, accounting for more than 13% of revenue. We see the trajectory of growth in parts, accessories, and merchandise continue to be surging, moving forward as well.

Third, our premium segment in the domestic market has done exceedingly well, it is moving in the right direction. Sequentially, to look at it the, Q1 market share was 2.2% moving to 4.1% in Q2. Currently, last couple of months we are at 6%+ and we are on target to cross 10% by March, and therefore that is actually now giving the outcome of the portfolio strategy that we have. You have seen couple of launches that we have done in the quarter - Xtreme 160R Stealth, XPulse 200

4Valve, and you will continue to see more and more actions on the product side as we had already promised as part of our premium strategy, and the focus is not just on premium, it is on premiumization within segments as well. Accordingly, Glamour Xtec was launched with more than ₹4,500 price premium. It is already actually garnering more than 50% demand within the Glamour segment. Similarly, in scooters, we launched Pleasure Xtec and connected Maestro Edge. So we will continue to have the premiumization story as the key theme within the segments as well.

Fourth, retail financing as you know, is the key driver for the future and long term category growth, and our focus in this area has yielded good results with actually finance penetration in the quarter moving to 55% versus 51% same quarter last year, and will continue to focus on this to take this higher and higher. Finally, cost management as you would have seen in the commentary that we have released yesterday, not just on variable cost, but actually on fixed cost as well has yielded handsome dividend with LEAP savings giving us more than 300 basis points of savings, helping us offset large part of the cost inflation as well as the overhead management and that has helped us sequentially improving margins as we saw.

Let me now turn my attention on the outlook on the economy and sector as we see moving forward. Lots and lots of positive indicators - you look at a robust GST collections, you look at good monsoon, therefore the water level which will of course help the next crop cycle, the consumer confidence index is moving up, and the reopening of hospitality sector because that sector actually augurs well for the lower income group where lots of employment - organized and unorganized sector has in that sector, and therefore that will boost confidence and income levels of the category that is very relevant for the two wheelers, plus of course the recent tax cuts by Central and State government on petrol and diesel augur well, as it is providing the much needed relief. And on the long-term GDP forecasting, you would have seen that IMF has forecasted a robust GDP growth and Reserve Bank of India has also forecasted a strong growth for fiscal year 2023, upwards of 8%. So overall, the positive indicators for economy moving forward, as far as two-wheeler is concerned, we believe that the underlying demand story stays strong. With considerable potential because of penetration and increased retail financing, backed by the positive economic indicators that I just talked about, the momentum should come back soon.

Now finally, last but not the least, the topic that is receiving a lot of attention these days in media is EV. Let me just talk about and touch a bit on EV. We are on course for launch of our product by March. Our product has been designed by our R&D Centre in Jaipur and Tech Centre, Germany. Manufacturing, as you saw in our release, will be done at Chittoor which is our plant in Andhra Pradesh, so we are on course, and watch this space. Recently of course there have been lots of talk on who will win in EV and you have several names that have been floating around. While I would not get into betting, but let me just talk about what we believe success in EV will require. It will require focus on customers, on cost, and on collaboration and not necessarily on competition. Having said that, if you still want to pick a winner company, just Google the synonyms of the word "winner" and you will have your answer.

On that note, let us open the floor for Q&A. Over to you, Rahul!

- Rahul Arora:** Thank Niranjan for opening comments, let us now take questions.
- Moderator:** Thank you very much. We will now begin the Q&A session. The first question is from the line of Satyam Thakur from Credit Suisse. Please go ahead.
- Satyam Thakur:** Thank you for taking my question. Firstly, can you share and update on the festive demand in the final assessment, how will it end up being and beyond festive as well - in the next month or so. There is a lot of expectation on the wedding calendar, so do you see growth beyond that as well?
- Niranjan Gupta:** Your question is around festive demand, how it has been and what is the outlook. Alright, thank you, and first and foremost, good morning to everyone. Wish you all a very happy festive. Let me also wish you all good health as we move on to the year ahead. Coming to the question, overall it was subdued, however we saw that traction being better. If I would attribute certain rational and certain reasons, it seemed that it has been a delayed monsoon this year and normally in the past, I mentioned that rural health led the growth. Over a month this time that lacked. We have seen that crop is still in the field and it is going to mandis, in fact, in the markets like Punjab and Rajasthan that crop has reached the mandi, we have seen better traction and hence going forward, as the rural comes back we would see better traction, and post festive, if you look at right now I think the urban remains at the same level and the rural is awaited.
- Satyam Thakur:** Thank you.
- Moderator:** Thank you. The next question is from the line of Kapil Singh from Nomura. Please go ahead.
- Kapil Singh:** Thanks Niranjan for the very detailed commentary, very helpful. Firstly I wanted to check on electric vehicles. We have talked about the fact that we will be launching the EV before March and also making our own battery pack, so I just wanted to check how many EV products are we looking at over the next two years, and as a strategy is Hero MotoCorp going to make it on battery pack going ahead?
- Niranjan Gupta:** As you saw, what you said is that our product will get launched by the month of March. Obviously we will keep launching products every year as upgrades or variants - how many, I will not be able to disclose as of now, but closer to the time you will get to know. Equally, as you saw that we are in our manufacturing, we have said that we will provide an integrated ecosystem for battery pack manufacturing. Cells of course, come from various products, so that is the plan.
- Kapil Singh:** Okay, in your commentary you talked about several positive stats that we see for demand, are there any key risks that one should be watchful of in your view?
- Niranjan Gupta:** Kapil, the only key risk that we would say is if there is a Covid wave 3 which happens. Even there, we do feel that the vaccination rates have really picked up in terms of overall country. If you see, more and more vaccines have got approved, from first doses probably the government is now

moving in the direction of booster doses. So it may have been actually mitigated, most of the commentary around pandemic is now soft, but if you say the risk, then that would be one. Second, of course, we have given our commentary that inflation now, it looks like it will cool off because some of the commodities as you would have seen are stabilizing or coming off their highs, but if there was another wave of inflation, of course that can act up.

Kapil Singh: Lastly, if you could just talk about how much price increases we have done, and the outlook on commodity cost in terms of we have passed on whatever there was until now?

Niranjan Gupta: As you would have seen, we took price increases in April, July and September. This year, we probably have already taken close to around ₹3,000 price increase. As far as how much of it covers, you see that there is a combination of LEAP savings as well which we have done, and net material cost as a percentage of revenue has gone up by 110 basis points. So ideally, that is the one that we would like to recover more, but beyond that everything else is factored in the margin. As you see, sequentially, the margins have improved. Moving forward, as I said and let me just reiterate, some of the commodities seem to be cooling off, some of the raw materials which lead to those commodities seem to be cooling off - iron ore, coal, so sooner or later we should see now commodity spectrum stabilizing, and therefore then the prices give a chance to actually recover more than the forward inflation, and therefore that should help recovery of industry margins moving forward.

Kapil Singh: Thank you very much.

Moderator: Thank you. The next question is from the line of Rohil Gandhi from PPFAS Mutual Fund. Please go ahead

Rohil Gandhi: Thank you for the opportunity and wish you all a very Happy Diwali and Happy New Year. My question was on the entry level segment. So if I just see since implementation of BS-VI and even now, the commodity led inflation the realization have gone up almost 25% or so. So some of it probably is led by the export mix and the premiumization mix in your portfolio as well. I just wanted to understand how you are seeing the consumer demand and the purchasing power in the entry level?

Naveen Chauhan: Thank you Rohil. Entry, you have seen in the first half and Q2 also, not just entry if you look at even mopeds, I think degrowth levels are comparatively higher. Now as you said, this is the most price sensitive consumer and macro factors like fuel prices and all, also had an impact on the mind frame, but while there is an issue, if you see in the COVID wave the impact has been far more sharper this year impacting the disposable income, but I think it is more about how do you make it easier for the consumer to acquire the asset that will drive the growth, and we have seen the positive impact in terms of the way we have done on the finance part. And as Niranjan shared, the increase in the retail finance penetration has been far more in entry segment. I think that is the way this segment would expand.

- Niranjan Gupta:** If I just add on to what Naveen said, we have been proactively taking multiple actions and as you know, we launched HF100 which was a bit of strip downwards and just to enable people to come in at a lower price point as well, and like you rightly said, while the upfront price goes up, if you increase the financing penetration then it is more on EMI basis so the down payment that somebody needs to do does not get impacted big time, and which is what we have seen. Also on top of that, gradually consumers also realized that the resale price also goes up, so you can take care of upfront price through finance penetration and you can take care of the total price which goes up through higher increase in resale value. I think that this combination would work well as consumer confidence is moving up and people are in more confidence not to conserve the money, but actually to spend for the need that they have which is of mobility.
- Naveen Chauhan:** Absolutely, and in fact, just to give you a flavor on the innovation that was done in the retail finance scheme, we are looking at increasing penetration for the consumers who do not have banking habits with Suvidha being launched by Hero FinCorp, we got bullet payment scheme for farmers at four monthly level. So I think this is what we are doing in terms of expanding and going out to consumer who have the need, but may not be able to pay upfront to acquire the asset.
- Rohil Gandhi:** Thank you for such a detailed answer. That is all from my side. All the best.
- Moderator:** Thank you. The next question is from the line of Sonal Gupta from L&T Mutual Fund. Please go ahead.
- Sonal Gupta:** Thanks for taking my question. Sir just a couple of questions. Could you also give the number for the other operating income for this quarter?
- Niranjan Gupta:** Can you just repeat the question, I just missed it. Sorry.
- Sonal Gupta:** Sorry, I was asking for the other operating income number for this quarter?
- Niranjan Gupta:** First of all congrats on your move, I hope you have settled down well.
- Sonal Gupta:** Thank you.
- Niranjan Gupta:** The other operating revenue for Q2 was ₹223 Crores, last year same quarter was ₹187 Crores and Q1 FY2022 was ₹110 Crores.
- Sonal Gupta:** So this is primarily linked to the production at your facility, or is there any other element which is driving it?
- Niranjan Gupta:** No, its primarily linked to that. As you saw, obviously the fiscal incentive, state incentive part which is there, and then there are other elements, minor elements which are there, primarily linked to the production incentive and how much we sell in Rajasthan and how much we sell in Gujarat, etc., and Andhra as well.

- Sonal Gupta:** Just my second question, now where are the inventory levels now, I mean like post the festive period. How do you see them and what is the plan in terms of wholesale versus retail going forward?
- Niranjan Gupta:** Our current inventory after the festival is in the range of 5 to 6 weeks as it stands. and moving forward I think that is the number that we would maintain.
- Sonal Gupta:** Okay sure. Thank you so much. All the best.
- Moderator:** Thank you. The next question is from the line of Raghunandhan NI from Emkay Global. Please go ahead.
- Raghunandhan NI:** Thank you sir for the opportunity. My first question was on EV scooters, how is the company planning to approach high speed, city speed and low speed categories, the new product in March which is being launched which category would it cater to, and slightly on a medium term query, the company has a vision to dominate the space. Can you talk about market share aspirations, also company had indicated 10 strategic alliances in future, if you can talk about areas where these alliances can materialize. Thank you.
- Niranjan Gupta:** Thanks Raghunandhan for that question. Let me answer the market share part first. I think in a new category, the role of leader is category expansion and category building and not market share. So I think that is where our focus would be, and as I said, how do you build that is customer cost and collaboration? From a customer point of view, it is very important that how fast you charge, which is where we will have twin solutions which are coming. First of course, is on a fixed charging basis, and the second is on a swapping basis a little later during the year, and that addresses both types of consumers in terms of the charging solution plus of course the convenience and range anxiety, all of those we need to solve. The second element of course is the cost element, because unless you are unique and costs are viable, as such, there is always a limit to the cash burn that one can do. I do think that we as Hero are very well placed on that with our scale of supply chain and our existing manufacturing locations, land, building, you have distribution locations, servicing locations, and on logistics you can ride, so there are a lot of economies that will operate on the back of our scale, and therefore we are confident that we would be better placed on unit cost economics, which in the medium term will decide that who will fall out and who will remain in this game. Third is collaboration, which is where you have seen that we focus more on collaboration and less on competition, and that is where you see, that to start with itself, we had invested in Ather, we have announced a JV with Gogoro, so a lot of collaboration on the design space as well is happening, and effectively therefore that is what we are playing for. In terms of the high speed, city speed, low speed, we probably do not look at the segmentation that way. Watch the space as the product comes out by the month of March, and I am sure that we can take up those segment questions thereafter.
- Raghunandhan NI:** Thank you sir. My second question was can you elaborate on the area of benefits of LEAP program and how do you see the full year target?

Niranjan Gupta: Raghunandhan, we had announced, in fact, if you remember when BSVI was launched, at that time itself we had talked about the LEAP-II savings program, and we have said that we are accelerating the program, covering not just post design but right from conceiving the design to the end of line, then of course source, and we are also covering the other areas of variable cost. All of those put together, year-on-year basis, if you see Q2 to Q2, we have got 320 basis points of LEAP savings which is built into the results.

Raghunandhan NI: Thank you so much. Wish you all the best.

Moderator: Thank you. The next question is from the line of Satyam Thakur from Credit Suisse. Please go ahead.

Satyam Thakur: Thank you for bringing me back on. So the other question I have is on your electric vehicle launch which obviously will be scooter, the one that you are launching in March, and the market also does not have many like us in the market right now, but based on what you gather from your channels, what is your assessment in terms of the demand pull? Is your entry level motorcycle customer also looking to transition to electric and willing to go for electric scooter, and secondly are you also working on electric motorcycle as well, is that also part of the plan?

Niranjan Gupta: Satyam, good question. Thanks for this. Yes, the March launch will be scooter, so you are absolutely right on that. As far as motorcycle is concerned, let me talk a bit about that. If you really look at it, first of all the fuel efficiency that a motorcycle gives versus scooter, there is a big difference. So you look at the mileage of the entry motorcycle versus scooter. Second, you also look at the pricing that is different. Third, if you look at the range and the power that is required in the motorcycle use, you know what they use it for and the distances that they need to cover, so effectively if you have to cater to that consumer, your battery pack size and the battery pack capacity has to be far more. So on one hand, you have to cater to a lower price but with a higher battery pack capacity and higher range, because a scooter on daily average actually would be far lower than the motorcycles on an average basis, what a commuter uses. So effectively when you see that, EV in motor cycles is way off in our view. There are some players globally who are trying, but they are more on the super-premium end where probably a customer can pay a huge premium for possessing that vehicle, but as far as the commuter, and in general, right up to probably the mid CC segment is concerned, it is way off. The EV penetration, at least over the next few years, will be driven by scooters, and then thereafter as battery technology develops, where you can pack more with less and cost reduces, maybe the other cell technologies, solid state batteries, so it has to a different solution which actually works on the current battery technology, which are either there or in the works, there we do not see motorcycles actually happening. As you know, in the two-wheeler industry, motorcycles are still 70% and scooters are 30%.

Satyam Thakur: Okay, thank you and all the best.

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

Jinesh Gandhi: The first clarification is on festive season sales. So 32 days or 35 days festive season as we classify, would not be down about 15% to 20% or would it be less?

Naveen Chauhan: As I said, as we progressed into the festive, in the second half it improved, in fact if I were to share with you, on Dhanteras, the day which is the biggest day, we saw people coming back to the showrooms, there was good crowd in the showrooms and it is manifesting in different zones in different ways. Markets which are big which is North, Central and part of East, I think the growth rate was better off as compared to Southern market. As I said, it was not as good as last year, so early double digits is where it was.

Jinesh Gandhi: As you rightly pointed out, the entire farm equipment stocks are being delayed because of delayed monsoon, and considering the marriage season which is around the corner, do you expect catch-up to happen during next, maybe, one to two months on this side?

Naveen Chauhan: Yes, of course, I think there is a good number of marriages right up to the middle of December, and we have seen marriage buying happening to certain extent during festivals, but I think that is largely in the semi-urban. In rural segments, they wait for their crop to reach mandis and once they have the cash in hand, then they come and buy. So I am positive about it once the harvest happens, and it was delayed because of delayed monsoon this year. The farmers are also going to save on the first and second irrigation that happens in the Rabi crop because moisture content in the soil is pretty good right now.

Niranjan Gupta: Also, Naveen, what may help probably is what we discussed yesterday, that this cooling of the diesel prices by at least Rs.10 per litre, that could be significant in the cost equation as far as the farmer is concerned.

Jinesh Gandhi: Got it, the second question is on the price hike. So you mentioned about ₹3,000 price hike since April till now, but what kind of price hikes have we taken this quarter, just for us to understand the cost inflation on this quarter and the price hikes taken?

Niranjan Gupta: We took a price hike on 21st of September that was around ₹1000 and July was around ₹1200.

Jinesh Gandhi: Okay, and on the exports side, it is good to see we are getting traction in that business. So we had talked about approaching markets differently than your earlier strategy, so can you update on where we are at with respect to the market wise product strategy, I mean in Africa our new launches based on the market requirement - how are they doing and similarly in other markets?

Niranjan Gupta: Short question Jinesh, but will require a long answer, let me try and summarize that. Overall, as I said that we are comfortably at a run rate now of 300,000 annualized which is 50% more than the run rate that we were running at for the last four to five years. There are areas like Mexico where we tied up and launched, we expect that to do very well. Bangladesh has started recovering from the pandemic and from the impact that it had. In Nigeria, we have sent in the modified customized product we talked about - the taxi segment with elongated seat. Columbia is receiving good reviews

on XPulse on the premium segment, plus of course Columbia is also turning around, now it has actually reached breakeven on EBITDA level, it will soon be breakeven on bottom line as well which will allow the company to invest more. I think things are happening the products that are required for each of these markets we are going in. Sri Lanka is also one of the good markets for us, but there have been no sales, so the numbers do not include Sri Lanka at all, given that the country had put import restrictions, that is expected to be sorted out in the next six months or so. So that should help in FY2023 as well. So I think that our strategy is working well. As I said, it's early days, but we are delighted and we will keep building on that. In terms of the market share trajectory, the key markets we are focusing on, around 7 to 8 markets where we have positive market share movement, but I do not want to talk about the numbers because the base is still small and as it starts growing up, we will be talking more about these numbers.

Jinesh Gandhi: Got it, thanks, that's all from my side.

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

Hitesh: Hi, this is Hitesh from CLSA. Thanks for taking my question. My question is basically, first question is on EV, so just wanted your sense on customer preference, how it will shape out for scooters - basically whether they will go for high speed scooters or low speed scooters because some of your competitors are talking about the low speed scooters could still form 25 to 30% of electric scooter market, what are your views on that? Secondly related to that in the export market, especially Latin America, Sri Lanka, Bangladesh, just wanted to understand how is electric scooter journey there, electric transition, there are the governments also giving incentives like India in those geographies to really propel the EV.

Niranjan Gupta: Thanks Hitesh for the question. Good to see that you are calling this question from your new house, CLSA. So, Hitesh, just addressing this in terms of customer, whether a customer drives at a low speed or high speed, everyone prefers certain speed to be, I mean India is not a market where people would be happy with saying that limit of my speed is only X which is lower than current scooters which are there. I think in our view, benchmark for the customers would be that am I getting a similar comfort on speed, on convenience, on range as I am getting on my current scooter. I think that is the bare minimum that we need to address on the customer part of it, and of course then the plus point is the tech part of it. Currently what is happening is, probably tech is becoming the core and the rest is getting a bit ignored, which will come back as the customers then starts picking up deliveries and start riding, so that is our view, that it needs to meet the bare minimum benchmark of the current scooter for the customers to migrate and then the tech will be plus, but the convenience of the customer cannot be compromised whether on speed or on the range part of it. On the export part of it, yes some countries have started contemplating. You are absolutely right, LATAM., Bangladesh, some of the countries have started talking, of course, they have not progressed as much as rest of the countries like India have progressed in terms of putting out incentives, but I think discussions are in the work there and therefore any development that we do on the scooters here and what we launch here, we are keeping in mind the global requirements as well, and as and when the market is right, the policy framework is right, we would be then able to

actually capitalize on that and export that to the market. Naveen, would you like add on the scooter customer in general from your perspective when they migrate to EV, what is the bare minimum they would expect?

Naveen Chauhan: You said it right, Niranjan. The consumer when enters into the mobility, they would need a bare minimum level of performance, so it is meant for those consumers. After the house, it is the second most prized possession, and comprising on that is something that is not preferred.

Hitesh: Just a small follow-up on the tech part of the electric scooters, Niranjan, if you can add there - basically I want to understand who is controlling the operating system in electric scooters. Mainly the consumer data that you guys will get once the scooters are connected and all, there are a lot of business models that can be evolved by auto companies on that. I am not sure whether you have started thinking about that, but who controls that operating system or the data that you are going to get?

Niranjan Gupta: The data will definitely be controlled by us. All the customer data will be controlled by us and you are absolutely right, once you have that, in any case what works for us is also that we have 100 million customer base already, which is the by far the biggest customer base that any OEM can have because obviously who rides scooter are not going to spring from a new planet. A large percentage are going to from this, and from people who need mobility. Second, smaller percentages who take it just as a tech part and get added on, and therefore that gives us the advantage, so we already have the data, of course with tech then you get more live data and you can actually capitalize on that as many companies globally have been doing on many other multiple sources of revenue streams.

Hitesh: Good. Thank you Niranjan.

Moderator: Thank you. The next question is from the line of Ashish Jain from Macquarie. Please go ahead.

Ashish Jain: My first question is about margins. You spoke about 300 bps savings from LEAP program, can you break that between raw material and other costs, and secondly what is the further headroom you see coming from LEAP.

Niranjan Gupta: It will be largely on account of materials where some part of other variables also is included into this. Moving forward, our program continues on this one, what the number will be is difficult for me to give out, but all I can say is that, as you would have seen in the last few quarters we have been working very aggressively on the LEAP-II savings and therefore we should continue to see good traction on this in the coming quarters as well.

Ashish Jain: Secondly, on the spares if you could just elaborate what are we doing differently for spares to be now 12 to 13% of our revenues. Is there any target in mind or what is the potential you think this can go to in the next few quarters?

- Naveen Chauhan:** I think spare parts impact, I will not say spare parts, it is parts, accessories and adjacent business, that has been taking off and it has been on the rise multiple times. I think one is the core principles of going very, very deep into the country and expanding footprint at the last level of sales, that is paying off rich dividends, and then once you get very, very deep and strong distribution robust system in place, then you bring in additional lines which were adjacent lines, for example oil has been adding good numbers to the business, accessories is launched which is increasing, in fact in October we saw the highest ever monthly retail on accessories. Going forward, I think our distribution footprint that we have created, still 30% more to plan, that should continue to pave the way and as I said in different businesses, we are exploring more of them both at our workshops as well as in after-market.
- Ashish Jain:** Sir, lastly what is headwind from exports at this point on your EBITDA margins? Is exports contributing positively to our margins today?
- Niranjan Gupta:** The exports EBITDA margin are lower than domestic, because as you know as we are launching in Nigeria, into some of the other markets - it is lower than that, but moving forward as the scale quickly picks up, and as we also put more and more premium products into the export market. the EBITDA margins will recover. Overall, as it scales up fully, as you know typically all put together, the export EBITDA margins at full scale should be at least equal to, if not higher, than the domestic market.
- Ashish Jain:** But sir, at gross margin levels, are they already comparable with the domestic business or even there is an opportunity at gross margins also.
- Niranjan Gupta:** There is an opportunity at gross margins as well.
- Ashish Jain:** Okay, thank you so much sir.
- Moderator:** Thank you. The next question is from the line of Nitij Mangal from Jefferies. Please go ahead.
- Nitij Mangal:** Thanks for taking my question. Sir, on the demand side you are seeing that two wheelers are lagging passenger vehicles and the demand recovery, for reasons which are probably somewhat uncertain, but in your assessment when do you see the industry going back to let's say FY2019 levels - one or two years away, or is it longer than that? And secondly, from a next one to two years perspective, how do you rate the drivers for rural versus urban demand? Thanks.
- Naveen Chauhan:** Thank you for that question. We are all looking for the industry to go back and cross that FY2019 level and this is the second consecutive year of degrowth in the industry. Being a sales guy born optimistic, I would love to see that CAGR to come back and industry going back to that level. I mean, of late, because of COVID and other impact, we lost the level of sales and it has been impacted but fundamentals remain intact. The penetration levels are far lower than what it needs to be and there is lot of employment and government actions which should push demand ahead.

Going forward, I think Q4 should be better off than what we are seeing in the recent past and my belief is it will take a little time, we are a year or so to go back to that FY2019 levels.

- Nitij Mangal:** How do you see rural versus urban over the next one to two years?
- Naveen Chauhan:** Rural in the past, because of the penetration level, has always led the growth as compared to urban. In recent times, in fact last year was also better, this year it has been subdued and because of, as I said core fundamentals remaining the same and strong, the need for mobility is far higher with lot of government actions, and hence that should come back sooner than later.
- Nitij Mangal:** One more question, can you share anything on your plans with Harley Davidson. Could you see a joint product launch, and what kind of segments you would target?
- Niranjan Gupta:** The progress is on track, which is what we can actually say at this point in time. We cannot give a timeline unfortunately, but the progress is on track, the work on the product began as soon as we signed the agreement last year, if I remember correctly was around October-November, last year, so the work started then itself and it is progressing as per the plan. Beyond that we will not be able to comment at this stage.
- Moderator:** Thank you. The next question is from the line of Binay Singh from Morgan Stanley. Please go ahead.
- Binay Singh:** Thanks for the opportunity. So one of the reasons for the demand slowdown across two wheelers is also the sharp price hike that have happened, and as you pointed in your commentary, increasing finance penetration clearly tells that. But even if you look at finance penetration, that has largely remained in the 45 to 55% range. Is there a plan to take it aggressively up because that could be one big driver to help the consumer absorb this very steep price hike that we have seen, like anything that you are doing where a year down the line this year is a significant jump in finance penetration from current levels?
- Niranjan Gupta:** Let me first reply and then I will ask Naveen to add what is the new thing happening there. We were never at 55% honestly, when I look at all the quarters we were hovering around 40% and probably the best that we have reached in Q2 is around 50 to 51% last year. 55% is a clear departure from that perspective, it is a significant jump and why do we believe that it will keep going up, Naveen?
- Naveen Chauhan:** In fact that another 1 or 2% added in the festive, is normally because of the kind of consumer which comes in towards Dhanteras, it normally goes down, but this year we have seen the trend going the other way round, and lots of financial innovations. I mentioned that earlier, lots of financial innovation, I think that's the direction in which things would move to increase the finance penetration levels in the two-wheeler industry, and as I said the segment of consumers we have identified and looking at right product for those consumer segments, Hero FinCorp has been very proactive in terms of responding to the needs which were emerging from various markets, and

across the categories and geographies we have seen this finance penetration going up. I think one more aspect that's waiting for this finance phase to get disrupted is also how do we get increased level of digital play in terms of having a high level of competitiveness among the financiers to bring down the cost of finance, it still remains at a slightly higher level. I think that's the one trait that we are looking at to work on further.

Niranjan Gupta: In fact, Naveen, just to add your point, that's a big opportunity and we already see players are looking at tech and digital from their end as well as from a consumer end, because they are getting more digitally included in the entire payment tech and fintech system more and more, we do see that augurs well both from the financiers' side as well as from the consumer side, and therefore this phase is actually likely to be a big growth driver for the category as such itself, moving forward over the next three to five years.

Binay Singh: Could you also comment a bit about Hero FinCorp's loan, like in this jump in financing that we have seen, what has been the share of the captive, how has that played out?

Niranjan Gupta: As far as FinCorp is concerned, they are roughly anywhere around between 35 to 40% as a share of financing. They continue to be at a solid level of that range, plus or minus few basis points keeps happening, depending on quarter to quarter, so they continue to be the lead player, but rather multiple players who come in also help expand the basket. But there are at a robust 35 to 40% share of financing.

Binay Singh: The second question is that as we recall, last year, sales promotion spend had gone down quite sharply for you and for the industry after COVID. How would you compare the sales promotion spending now versus pre-COVID level, has it normalized?

Niranjan Gupta: Let me just cover, then I will ask Naveen to supplement, if you look at this festive - whatever the promotion spends and all were done - it is at a normalized level, so if you go back to the pre-COVID levels, whatever those spend to revenue per vehicle used to be, that is not a significant departure from that in this quarter.

Naveen Chauhan: It is just about where do you put that money, so as far as expense is concerned, it is consistent, it is just about which is the opportunity bucket that you see to put your money on.

Binay Singh: And lastly if you would comment on Gogoro, is that plan on track to launch the model in the next calendar year, will it be in the same facility? It has been six months since the partnership, any incremental details on what is happening there?

Niranjan Gupta: At this stage, we will not be able to provide any more incremental details, I am afraid, but as soon as we are able to, we will come back, so watch this space.

Binay Singh: Great, thank you.

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

Gunjan Prithyani: Thanks team for taking my question. I have just two quick follow-ups. Firstly, on this whole demand thing, how much do you think it is a whole EV overhang, because media has just created a lot of hype around it, so do you sense in your conversations with the dealers that some percentage of queries are coming only for EVs, or you seeing rising enquiries around that. Is there anything that you can share along that?

Niranjan Gupta: So Gunjan, firstly as I talked about, if you see 70% in two-wheelers is motorcycle and 30% is scooters, so first of all primarily whatever enquiries and questions and all that come around, they come around from the existing scooter base, and people who have the need for those scooters. Overall, right now on the demand, it is actually not impacting at all, because overall EV probably, if I am not wrong, is less than 1% of the overall demand. So there is a lot of interest in media, I would say rightfully so, but from a demand perspective it has not started impacting right now, it will still be a while before a sizeable share starts putting on that.

Naveen Chauhan: I think it is more on that space, but I think the positive that I take from whatever enquiries that are coming in, is that consumers trust the brand Hero and it's the brand Hero that they would kind of come first to check what is new on EV front.

Gunjan Prithyani: Sir, you do not think that people are in wait and watch mode, I mean that's not a reason for generally the demand being low in two wheelers versus some of the other categories?

Niranjan Gupta: No, Gunjan, because if you see even motorcycle versus scooter in total two-wheelers, I think the scooter as a percentage of two-wheeler probably in Q2FY2022 is more than what it was in Q1FY2022, and as you said, if that was the case, people would have deferred their scooter and therefore scooter percentage to total would have gone down, so that is not the case there, but yes they are interested because is a lot of interest in this, people are asking, so that is building up, but currently, is it the people are deferring their current purchase to actually avail of an EV scooter, no we do not think so.

Gunjan Prithyani: Second very quick question on the capex commitment for EV - is there something that you would like to spell out, this is what we are looking to spend in this business for the next three to five years?

Niranjan Gupta: So Gunjan, we have already in fact said that the overall investments that we have talked about, our CEO has talked about - that over the next five to seven years, and this investment is not just capex, it is some capex, some brand building, on R&D towards the space. We have talked about five to seven years overall ₹10,000 Crores a year back, and we have said that almost 50% of that would be primarily into EV, so that is what we are looking at. Having said that, it is basically need based, obviously we would not spend where it is not required, and if it is required we may spend even more, so it is the question of spending based on the need and based on our product plan, based on

what we are going to launch, and obviously there will be no scarcity of that. One thing I can assure you is that, because of our ability, our scale, will be able to do that in a far more optimized manner, so if let's say a new player required ₹X to spend behind achieving as an objective, we probably can do in ₹X/2, so that is the broad thing that I can tell you.

- Moderator:** Thank you. The next question is from the line of Chirag Shah from Edelweiss. Please go ahead.
- Chirag Shah:** Thanks for the opportunity. Sir, just a clarification first, other operating income for the quarter you mention ₹222 Crores, right?
- Niranjan Gupta:** ₹223 Crores, yes, you are right.
- Chirag Shah:** I have a question on spare parts is this a normalized run rate 12-13% of revenue, or there is scope to pick it up also?
- Niranjan Gupta:** So, let me just give a short answer and I will ask Naveen to maybe supplement. Let us look at an absolute level, which is the ₹1,140 Crores that we have done. We had done couple of quarters of more than ₹1,000 Crores also earlier, and we are confident on the trajectory moving forward, so we hope and we expect to continue to build on these numbers as we move forward. There could be times here or there, one quarter here or there which could go up or down, for the underlying trajectory to build on these numbers even further. As a percentage revenue, of course, it all depends on the demand and the momentum of overall two-wheelers also coming back, but on an absolute level, yes, we are quite comfortable and confident on that growing, and Naveen already explained, and Naveen would just you like to touch upon the underlying couple of drivers that we already talked about, which are leading to this growth and confidence in the growth.
- Naveen Chauhan:** We kind of started this story around two years back when we went micro, so fundamentally we are in place in terms of our robustness of distribution, and once you have that, it is just about looking at, in fact, I would say what we do in vehicles, into looking at every single product, and have a product manager, is the same approach that we are doing in spare parts, wherein there is a team which looks at various product groups and how the competition is and what is the price in different markets, and that is the approach that we have taking on spare parts to go deeper, at every single counter we are looking at how many SKUs have you set and how many SKUs do I want to sell, what is the potential. I think the basic fundamentals have been worked upon in recent times, which is actually delivering the result that we are seeing.
- Niranjan Gupta:** Let me add more on this, Chirag. What we are doing now is as we are launching more and more products in the premium segment, right at the design stage itself we are looking at how many accessories we can add, because there is a demand for that. Let's say you take Xpulse and then people want those customized, people want those add ons, while they may not want let's say on HF Deluxe, but as you move up the chain, so as we are launching more and more premium products, in the design stage itself we are saying X% should be accessories that being designed rather than later to do based on what is required and what the customer comes back for. So as it

moves forward and we build our premium portfolio, actually that should augur well as well. Our accessory business is going up and of course the focus on merchandise, overall put together I think the movement forward is that how much more can we get as a percentage of revenue from the after sales, services - all of those, and that therefore, basically builds a more robust alternative or additional stream of revenue on top of the product revenue that we are talking about.

Naveen Chauhan: One perfect example, we launched the Canvas Splendor. It is now contributing to 30% of our retails, and it is a model that we have given to consumer to customize with the strips, that is becoming additional revenue in spare parts.

Chirag Shah: Thank you for your elaborate answer, if I can just squeeze in one more question, on the exports front, what is the change in approach that we adopted which is helping us to have partners, addition of distributors versus historical track record, over the last two to three years, there is an improvement in pace of regions that you are entering and tying up with new distributors, so is there a change in approach and change in pace is further accelerated over the next three to five years?

Niranjan Gupta: Yes, Chirag, in fact maybe at some stage we may have a full-fledged focus on global business for all our investors and analysts. But if I were to give a short answer, Chirag, I would call it a phase 2 and therefore a revised strategy where, as we talked about, in the phase 1, the focus was go and set your foot in as many markets as you can, because we need to understand each of markets and go with whatever products you have, because you cannot afford to delay. In the phase 2, which is now, which has already started and yielding results, is now about now give the markets customized products that they require, and therefore focus on that. So even when we are developing products, actually it is not like we develop products for domestic, and then we say okay this will go into global market. In the cycle plan, the product design itself, there is a very clear path for each of the key countries that what is the next five year plan for this country that I want to have based on the customer needs, so that is a shift or a phase 2 or an add on, as you may call it. And the second one is that while we are in 40+ countries, we clearly decided there were 9-10 which will receive disproportionate focus and the rest 30 will continue to manage, when the scale is up to a certain extent, then of course they will start receiving focus as well, so rather than equally dividing the resources and the focus across the 40 countries, it is about priority markets and then obviously as you nurture them, they also move into that category. So that is the short answer, Chirag, so there is a lot of teeth, muscles, flesh behind this entire strategy, and as I said we will at some stage may be have a full-fledged session on global business itself.

Chirag Shah: So basically we have the right distribution partner at least in this 8-9 countries, right?

Niranjan Gupta: That has been done already, Chirag for most of them, couple of them only we have changed, but we have the right distribution partners, I mean most of our distribution partners are selected after very, very rigorous scrutiny in terms of both their financial strengths, their understanding of the country, their networking, their ability on policy advocacy and their experience with auto sector, so multiple parameters. So apart from a couple of them, and as Hero, we do believe in stability of partners and not changing and chopping them every two and three years, so they are stable partners,

whether you look at Columbia, Bangladesh, Sri Lanka or Nepal, all of them are continuing, so yes, couple of places wherever required, we have changed partners and we may change, but that depends on need.

Moderator: Thank you. The next question is from the line of Aryn Pirani from JP Morgan. Please go ahead.

Aryn Pirani: Good morning. Thanks for the opportunity, I had a question on the trade-off between profitability and volume growth, if there is any, because if you look at two-wheelers, since the time of BSVI transition, then COVID second wave - in general, two-wheelers have been more disciplined in pricing, growth has been sluggish compared to other categories, so do you think there has been a trade-off, and if not, do you think that growth is not dependent on pricing and it will come back based on other actors that we are missing out right now?

Niranjan Gupta: Aryn, first of all, you heard my views on this subject earlier as well - that a business cannot be run based on either deliver volume or deliver profitability, we got to deliver both because it is volume growth combined, multiplied by profitability is what generates the next shareholder income or the value accretion, so I am a great fan of believing that both have to be addressed. At different times, you have to then maybe give weightage to one of these factors more, and other times you can swing to the other extreme, and which is what we have done. For instance if the cost inflation has happened, have the industry and have we as a leader of the industry, have we taken a stand and passed on the entire inflation to the market plus the margins that we want to? You know from the results that we have not, so there is already a call which has been taken that you pass on partial, please focus on your own savings program, accelerate them, you tighten your overheads management, and therefore cushion the impact on the customer, so that is the balance strategy, when you start balancing profitability and this as well, as the commodity start cooling up that actually gives you a headroom to actually dent a judicious smaller doses of price increases where the inflation will be far lower and therefore your recovery can be far higher. So I think it is a question of lag and lead and it is not a question of either or.

Aryn Pirani: This is helpful, and just on the EV, I don't know if you can answer this question right now, but most of the EVs which have been launched at least in the medium to premium end right now, come with the close source charging things, if their own charging infra can only support their own scooters. I do not know if you have any thoughts about when you launch your scooter, will it be an open source or will it also be a close source, if you can help us on that?

Niranjan Gupta: I think, Aryn, we will reserve some of the information and news for our launch, otherwise at the launch time we will have only the product and we will have disseminated all the information, so let us wait for that exciting time when Hero, the leader of two-wheeler industry comes out and launches its EV product in March.

Aryn Pirani: Sure, looking forward.



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Moderator: Thank you. Ladies and gentlemen, due to time constraint that was the last question for today. I now hand the conference over to the management for closing comments.

Niranjan Gupta: Thank you very much, and do not forget to google synonyms of the word “winner.”

Umang Khurana: Thank you. Have a lovely weekend, and thank you again for joining us.

Moderator: Thank you. On behalf of Nirmal Bang Equities, that concludes this conference. Thank you for joining us. You may now disconnect your lines.