"Hero MotoCorp Limited
Q1 FY2022 Earnings Conference Call"

August 13, 2021

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Moderator: Ladies and gentlemen, good day and welcome to Hero MotoCorp Limited Q1 FY2022 Earnings Conference Call, hosted by Motilal Oswal Financial Services 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. Jinesh Gandhi from Motilal Oswal Financial Services Limited. Thank you and over to you, Sir!

Jinesh Gandhi: Thank you Faisal. Good afternoon everyone. On behalf of Motilal Oswal Financial Services, I would like to welcome you all to 1Q FY2022 post results conference call of Hero MotoCorp. We would like to thank the management for taking time out for this call. I will now hand over the call to Mr. Umang Khurana, Head, Investor Relations and Business Support to introduce the management. Over to you, Umang.

Umang Khurana: Thank you, Jinesh. Hello and welcome everyone to the Q1 FY2022 post results conference call of Hero MotoCorp. I trust all of you are keeping well and hope that this continues to improve as we meet for the next quarter as well. For today, the plan is to begin with the CFO- we have Niranjan Gupta on the call and our Head of Sales and After sales, Naveen Chauhan. The CFO will begin with opening comments and then we will take your questions. Can we now begin the call, please? Niranjan, over to you.

Niranjan Gupta: Thanks, Umang. Good afternoon everyone. Welcome to Hero MotoCorp's Q1 earnings call. You would have seen our results announced yesterday evening. We delivered 10.25 lakhs of volume, 200 basis points market share gain in Q1 over full year 2021 and a bottom line of Rs.365 Crores, significantly better than Q1 of last year. As all of us know, Q1 was a difficult quarter for not only the industry, but the country as a whole, with Wave 2 impacting several sectors, several lives and across the board. Fortunately, as we speak now, it seems to be behind us. We, at Hero, during the quarter, prioritized safety of our employees, of our customers, of communities, and of all the stakeholders around us. We closed our manufacturing operations much earlier than others. Of course, as you know, we restarted also on a very fast pace once things were clearer. There is a big vaccination drive that has gone on. More than 95% of our employees - direct, indirect, across the channel, everywhere - have got vaccinated with first dose, and they are well on their way on the second dose. That gives us huge confidence as we move forward on returning to normalcy, not only the economy, but the sector, two wheeler and our company as well. As we move forward, there are positive signs in the economy that have emerged very clearly. GST collections have come back on track. We see e-way bills coming back on track. We see a very good monsoon which is happening as we see, and if all goes well not only for the crop cycle right now but actually the next crop cycle as well, as you know, because Indian economy depends a lot on irrigation, and therefore water is important. As we see ourselves, more than 90% of the outlets now are operating normally without any kind of micro lockdown, and our retails have reached more than 80% of the pre COVID levels. There are more festive dates which are coming, smaller festive throughout this month and part of the next month followed of course by the big festivals, we know with Navarathri and Deepavali period that will happen in the month of October. Moving forward, as we said, looking at the shape of monsoon, looking at the shape of economic revival, we do expect a positive trend which has already started emerging, picking up through the festive, and thereafter big buoyancy is expected to return in H2 of this fiscal. That is about the medium and short term.

As far as the long term is concerned, the opportunities for two wheeler sector remain intact for India's economy. We remain very confident for the two wheeler sector, because the underlying factors of under penetration, more woman in education and employment, more financing opportunities and more organization, all remain intact and to top that up, more of personal mobility as a factor will slowly play out now. So on that note, let us open the floor for Q&A.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Gunjan Prithyani from Bank of America. Please go ahead.

Gunjan Prithyani: Thanks for taking my questions. Two questions. Firstly, on the demand side, can you give us little bit more color on how is it evolving post the reopening, particularly when we look at the retail numbers, they are not encouraging. The registration number I mean, and the rural narrative, does not seem to be that strong as it was last year, given the second wave has been quite disproportionate, so what is it that you are picking from the dealers in terms of enquires? We are starting to see some small festive, as you mentioned, which will start coming in the next couple of weeks, so some feedback from on the ground, what you are hearing will help us?

Niranjan Gupta: Thanks Gunjan. Hope you are settling down in your new role well. Let me just hand it over to Naveen to address your query on the short term demand.

Naveen Chauhan: So there are two things you wanted to check, on the demand, and then you said you also referred to registration data. On the registration data, which we normally refer to as Vahan, there is a lag in the registration that we know. In some of the states, it is instantaneous like Delhi and Rajasthan, but in some other states, it lags so you get the real feel of the retail number after a certain period of time. Second, on the demand front, we all know the impact of COVID in Q1, which was very, very high, but if we look at some of the stories regarding the small festivals that we have seen in the recent past, there has been a good uptake in our number. For example, Rath Yatra, which is celebrated in Gujarat mainly, we had 40% odd plus kind of uptake in our numbers. Similarly, on Eid and Guru Purnima, so there are these occasions which are coming in, which tell that you need an occasion to buy. But, I think if I refer to the enquiry strength which are coming in, you refer to the kind of customers who are visiting our website, the e-shop and the virtual showrooms, there is a positivity, and while Q2 will be positive but not very strong, I see a strong comeback in 32 days period that (the festive) falls in.

Gunjan Prithyani: That is encouraging. Before I get to the second question, if you can clarify financing side is an issue that you are seeing in the market, given particularly how asset quality with the NBFC is panning out? The second question I had was on the difference between the consol and the standalone, there is an associate loss of about Rs.135 Crores so if you can clarify a bit on this? My guess is this would be on Hero FinCorp, but if you can give us a little bit more color on this and then I will join back the queue?

Niranjan Gupta: Gunjan, the finance penetration in this quarter was 41%. As we know, the quarter is not fully representative, given that different parts of India started opening at different points in time, so considering that 41% penetration is pretty healthy and FinCorp share was 41%. As we move forward, we do expect in a normalized quarter to move it to 45% to 46%, and may be even closer to 50%, as we move forward through the festive season. As far as your consolidation question is concerned, yes, it is one off, one quarter loss in FinCorp, and as you know, across the NBFCs because of this Wave II, the Q1 GNPAs had gone up and so have in FinCorp, so there is a one off provision that they had to make, and moving forward they expect the GNPAs to settle down and come back to normalized levels by Q4 and therefore a breakeven and a profit to restore in the second half of the year.

Naveen Chauhan: Just to add to what Niranjan just talked about, in the finance penetration, you remember that in Q4 last year, there were no marriage dates and all marriages were shifting into Q1 of this year. Normally marriages are more of cash purchases and hence that also has an impact on the overall retail finance. As we move into Q2, I feel that it should improve.

Gunjan Prithyani: Sure. Can we get some numbers on Hero FinCorp, because we do not have the annual numbers as well. Just a little bit on the operating trends, it will be useful for the broader audience as well?

Niranjan Gupta: Umang will come back to you offline.

Umang Khurana: I am just going to request everyone to do two questions at a time please and we will take it from there. Gunjan, I will come back to you offline.

Gunjan Prithyani: Thank 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. First housekeeping question, just on the commodity inflation, how much of the impact is already there and what we can expect going ahead. if you can give some indication?

Niranjan Gupta: Thanks for the question. On commodities, as you know that generally what reflects in the index comes to the industry with a quarter’s lag, so as you see, the quarter was already impacted by commodities. You see the material cost percentage going up. We of course managed to offset a large part of that to LEAP savings of almost 150 basis points, and of course, we have taken price increase as well of almost Rs.600 per vehicle from 1 April 2021. From 1 July 2021, what we have done to offset will come forward as a cost impact, is to take a price increase of almost Rs.1200 per vehicle, and combined with then the LEAP savings, we do expect the recoveries moving forward and savings to actually neutralize the cost. Thereafter actually we expect the commodities to soften, and therefore the margin recovery is to happen over the next two to three quarters.

Chirag Shah: Also, can you share the spare part revenue number? Is it lower versus the normal sales in the quarter as a percentage wise?

Niranjan Gupta: Yes, Chirag. This quarter was lower, as you know, it is very difficult to read this quarter, and I will keep repeating that different geographies in India opened at different points in time, so even mobility was restricted on the road, and therefore you see lower parts. The parts revenue for the quarter was Rs.455 Crores, which is 8% of revenue. What we did in Q4 of FY2021 was Rs.1,050 Crores which was 12% of revenue. Now, moving forward in a normalized quarter, we see just like Q2 or Q3, we would expect it to go to 10%+ at least and therefore to return back, so it is more of the lockdowns and the openings, and not so much of any underlying issue, as far as the parts revenue is concerned.

Naveen Chauhan: I think just to add to that, there are certain fundamentals changes that we have done in spare part business, which has seen results last year. Q1 is an aberration. I see strong numbers coming back from Q2 onwards.

Chirag Shah: This is helpful. This explains part of the margin pressure, and one question on the demand outlook, while you expect a strong comeback, last year also we had reasonably good days, so for the balance part of the year, can we expect some growth or high single digit growth for the year? Is it safe to assume that we can expect a growth in the balance part of the year?

Niranjan Gupta: Chirag, early indications like Naveen talked about, in some of those single day festivals. He talked about Rath Yatra and he talked about a couple of others, those single days are showing growth. It is showing that for festive days, customers are coming back. The second bet is that last year you saw lot of pent up which came very fast in June and July, and this year that has not happened because of the staggered lockdown and more and wider impact, so therefore the recovery has been a bit slower. Like I said, we have reached already 80% of the retail and it will keep inching up. The second half, surely, we should see a growth as compared to next year at least. That is what we are expecting and that is what we are building for and that is what we are confident about.

Naveen Chauhan: I looked fundamentals on basic demand drivers coming back, vaccination improving and this is second year conservative years of the kind of numbers that we are seeing and hence H2 should be a good half.

Moderator: Thank you. The next question is from the line of Vimal G from Union AMC. Please go ahead.

Vimal G: Thank you for the opportunity. Sorry just one. I missed on the spare part revenues for this quarter? How much were they?

Niranjan Gupta: Rs.455 Crores for this quarter.

Vimal G: Got it, and for the last quarter they were above Rs.1000 Crores, right?

Niranjan Gupta: Rs.1050 Crores was the Q4 FY2021.

Vimal G: Got it. Sir, the next question was on your overall strategy on EVs. What are the launch plans over there? Do we sort of plan to launch our own brand of EVs this year, may be next year, so that is the first part of the question. The second part is are we looking to leverage the technology that we have in our associate company, which is Ather and obviously we formed a partnership with Gogoro as well, so what are the plans on EVs going ahead, because they are fast catching up and there is a lot of buzz around EVs, so your comments on that would be helpful Sir. Thank you and lastly, this capex number is expected for this year and if possible for next year as well?

Niranjan Gupta: I see Vimal that you are combining many questions into one question, but fine I will answer that.

On EV, firstly our Hero product, we have already announced will be out by March of 2022, which means the end of this fiscal year. As far as Gogoro is concerned as we have announced, the product will be on swapping basis because we do believe that moving forward, for EV category to evolve rapidly, customers will need to have both as a fast charging option and as a swapping option, because swapping what it does. It kind of mimics your fueling, which the customer is used to, so you give the battery and take another battery. It just takes less than a minute or may be a minute and a half, the same time that you spend in a fuel station. So that product will come, we are planning towards the later part of 2022. So that is why you will see a lot of action in the next calendar year on EV front from our side.

As far as Ather is concerned, we continue to be the largest shareholder in Ather. They have expended to multiple cities now, and of course, like you said, there are multiple forms of further collaborations and synergies possible between the two companies, which the companies continue to explore.

As far as capex is concerned, I will not give a specific guidance for this year or next year, but generally our trajectory of capex has been around Rs.750 Crores to Rs.1,000 Crores per year. It keeps on changing a bit here and a bit there depending on what the plans are.

Vimal G: Do we have an arrangement with Ather that do we have the first right of refusal in terms of funding and does Ather require funding as of now?

Niranjan Gupta: So I will give this question a pass. Electrification as you know is a cash bound story, and it keeps raising capital as and when required, and so far we have been participating in all their capital rounds. This is all I can say, Vimal, at this point in time.

Vimal G: Fair enough, Sir. Thank you so much and all the very best for the rest of the FY2022.

Moderator: Thank you. The next question is from the line of Ronak Sarda from Systematix. Please go ahead.

Ronak Sarda: Thanks for the opportunity. Sir a couple of questions again. One was on the demand side, last year given we were pretty short of inventory and pent up demand was very strong, but how is the inventory position now, and related to that what will be the comfortable level of inventory going into festive season?

Niranjan Gupta: We have talked about the demand already. As you know, this is the time that we start building inventory. Yes, last year, we were kind of short because of the late start that happened post the lockdowns, and this year that is not the issue. Even the semi conductor issue that is impacting the industry, as far as our portfolio is concerned, given the portfolio as well as our supply chains, it is not impacting us, so we are building well towards a good festive and our inventories are building towards that. There is neither an alarming level on the upside nor there is an alarming level on the short side.

Ronak Sarda: Got it, and the second question on electric vehicles again, Mr. Munjal highlighted that it would start with a pilot project, but assuming the product quality is as good what we have in the market right now, how quickly can we expand to, let us say top 20 cities, assuming the penetration would be quicker in the top 20 cities?

Niranjan Gupta: First let me repeat, the launch is not pilot but actually a full launch that will happen by March of 2022 on our products. As you know, Hero has got a huge distribution strength and we have got 100 million cumulative customers, and people coming in to EV are not going to be entirely new one. A large set will actually come from the cumulative base of existing customers, and therefore Hero stand at an advantageous position, given the cumulative base of customers and the reach that it has to the nooks and corners of the country. Of course, the pace of scaling up and the roll out, we will not be giving out the exact number of cities at this point in time, Ronak. So watch the space. I am sure when we come through it, you will get excited.

Ronak Sarda: Sure. My question was given our reach, it should be much quicker than what the startups are doing over the last 2-3 years. Is that a fair assumption?

Niranjan Gupta: We would like to exceed all expectations, let me say at this point in time only this much. Let us launch the products, and of course then we can have further discussions on the future plans around the product, but we have all the fundamentals in place, which places us in a good position, and therefore it will be up to us honestly to how fast we want to scale up and take it up. A combination also will be the infrastructure readiness of the country through the OEMs and central government, so we will have to really calibrate it moving forward as we go forward.

Ronak Sarda: Sure. Sir thank you and all the best.

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

Kumar Rakesh: Good afternoon everyone and thank you for taking my question. My first question again is on the EV side, can you please help us as to what is this strategy, the broader strategy we are working with, so currently my understanding is that there are three pieces which we are working with. One is in-house product which you talked about, we will be launching in March next calendar year. Another will be Ather, but broadly from the product and marketing positioning standpoint, where these three products would be sitting? We know where the Ather product is sitting but where the other two products would be sitting, and from a medium term perspective how are we looking at our mix from the EV, and product portfolio from the EV side coming around?

Niranjan Gupta: Kumar, I would say the question is a bit early to answer about the entire portfolio and the product and the pricing and where they will be placed, but let me explain again. As far as our own product that we will be launching in the month of March, that we have said is going to be based on fast charging solution side, while the Gogoro tie up is on swapping battery solutions, so we have two different ways to actually in a sense energize or charge the product, and we are saying different customers will prefer different ways. Taiwan has shown a big penetration that has happened only through swapping while there are some other countries and geographies which have been amenable to charging, and therefore basically those are two different solutions that are going to the customers.

As far as Ather is concerned, as you know that we actually invested in Ather way back in 2016, in a startup and in EV. We believe that it is still early days, where you need to actually play out multi-prong strategies, and therefore as it manifests later, there will be space for multiple brands in a category that is just evolving.

Also just bear in mind that in fact all of the EV evolution, most of it in the first few years will be around scooters, and scooter EV penetration and EV evolution actually plays well to our portfolio, given that we are very under indexed as far as scooter market share is concerned. So therefore that becomes incremental and additive, and therefore more of the brands actually will not compete but they actually will expand the EV category.

Kumar Rakesh: Thanks Niranjan for that. My second question was recently Mr. Munjal was quoted in a news report wherein he talked about that Hero will not shy away from cash burn and not shy away from turning net debt, if that is needed to gain the leadership in electrification. Can you just give the context in which those statements were made, and are we looking at changing our business strategy in the coming years during the transition to EV?

Niranjan Gupta: Fundamentally, it is not a big change in the business strategy. We all know that EV category will not be profitable from day one, so it will require some bit of investments, or in other words, you can call it cash burn. It is in that context that the statement has been made, that we will do it appropriately and the other thing is that, as far as we are concerned vis-à-vis the other players, it places us in a much better position on optimization of these numbers. We will be able to get more out of our investment simply because of our scale of buying, our scale of manufacturing, our existing scale of reach, which a new player will have to replicate and therefore will have to have far more cash burn that what Hero will need to have, and we are talking about only for the EV category. It is not about a cash burn at a Hero level. There is a cash cow and a cash generating machine that we have, which is our traditional ICE business, and in our portfolio, 90% is motorcycles, so even if there is some cannibalization that is happening, that will happen as a market level not to our scooter portfolio. First of all, for us we see EV to be incremental to our topline, and second we generate enough and more cash in our traditional business. The cash burn was more for the EV category as such and not Hero at an enterprise level.

Kumar Rakesh: Got it. Even I asked that question is that we are sitting with almost $1.5 billion of net cash position and the moving to go to net debt position indicates a significant amount of cash burn appetite that what we are showing. I just wanted to understand from that context, that is that aggression to lead EV so high that we are willing to give away that level of cash burn?

Niranjan Gupta: I think that is a question more on that look how do you play out on returns and your capital structuring. It is about either opportunities in the M&A space, or investments phase, which actually can generate super normal and fantastic returns, then fine, then gearing the balance sheet is actually is not a problem at all. It is not about debt through cash burn, but it is about debt through any of the big acquisitions. If that makes sense and if that adds value, and we have been saying this in the past as well, that it is not about shying away from those opportunities. It is about that we always keep looking at those opportunities but we always say whether it makes a strategic fit and whether it will give returns to us.

Moderator: Thank you. The next question is from the line of Aditya Makharia from HDFC Securities. Please go ahead.

Aditya Makharia: Sir just on the premiumisation strategy, how is the market share of the Xtreme today? When does it hit up in your view, and on Harley how are we progressing?

Niranjan Gupta: Aditya, thanks for the question. I will ask Naveen to answer the first part, and then I will take up the second part regarding Harley.

Naveen Chauhan: I think the word premiumization, is the right word to be used, because we are looking at the whole portfolio, where we have aspiration class sitting across segments and how do you cater to the needs of the aspiration class across these segments. From the technical point of view, it is about 150cc and above, but what we are looking at is how do you premiumize each and every segment. If you look, right from Splendor there is a canvas edition, which came out. In scooters, we have got platinum series which came out, and all these are variants which are the higher end of the segment in terms of pricing and features, and are increasingly contributing more and more to our total sale in the segment, and it is going well with the launch that we recently had in Glamour.

Now coming specifically to the premium portfolio which is 150cc and above, I have been saying about Xpulse, it is creating waves and we have got a huge traction. We will be adding to the capacity in terms of what we can produce, shortly, and that should help us gain our numbers, but I think our overall strategy in the premium category is building our portfolio and gain volumes.

Niranjan Gupta: Let me take up the Harley question. As we have said before, there are two legs to the Harley tie up strategy, one of course is that we are the sales distributors for Harley bikes in India. We have 12 dealers, around 30 touch points, and that is going well. The second part of the strategy is to launch a bike in that retro segment, which is as you know almost one third of the overall premium segment out of the profit pool. I dare say that the segment probably has around 60% to 70% of the profit pool of the premium segment, so that is second leg of the strategy, to launch in that segment, and clearly Harley is an iconic brand and the work is going on in full swing on that, so that is second part of the strategy.

Aditya Makharia: Just last question, any market share targets on the premium side you can share.

Niranjan Gupta: See, on premium, we have to look at what are the right enablers that we are putting in place. Two years back in Hero World (Annual Investor Day at CIT), we did talk about that over the next five years we are going to build a full portfolio of premium across the CC range and across the category range which is sports, adventure, tourer, etc., and you have seen us staying true to that task. So you have seen earlier Xtreme 200, you see Xtreme 160R, you see Xpulse, and you will keep seeing more and more action. As far as portfolio is concerned, we are building that. As far as brand is concerned, you know that we have got brand ambassador in Virat Kohli, and so therefore on a branding side, marketing side we are doing a lot to build that up. The third element is also on the distribution side, whether the face lift which is happening, and as the portfolio builds up, you will see on the channel side, also premium channels also coming up. As both the things build up, and of course, the fourth strategy is actually association and tie up with the brand which we have already done. So I think all the enablers are in place and you will see the results coming through. So watch this space is all I would say, and we are excited about how we are going about this and clearly in the medium term, it should give a big boost to our portfolio.

Aditya Makharia: Thanks and wish you all the best.

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

Shyam Sundar Sriram: Hi Sir, good afternoon. This is Shyam. Thanks for taking my question. My first question is on the demand trend. Just qualitatively, if you can share some feedback on the recovery between the tier 1 towns and the tier 2 and tier 3 towns between June to August, which is doing slightly better than the other, and along with that between motorcycle and scooters what is happening. Generally, scooters are a little bit slower, but if you can share your thoughts on that, added with the fuel price increase and total cost going up, is that also denting the purchase sentiment in the overall two wheeler purchase?

Niranjan Gupta: Shyam Sundar, what we could get is more qualitative color on the demand recovery tier 1, tier 2, tier 3, and second is any impact on customer sentiments through the price increases that have been happening and how do we see panning it out.

Shyam Sundar Sriram: It is more of fuel price increase. Not the price increases, but more of fuel price increase and the total cost of ownership going up.

Naveen Chauhan: Including the fuel cost, so Shyam, different parts of the year we see different impact on various spheres. The time like this where the sowing happening, you would normally see tier 3 and tier 4 towns contribution going down, and as the sowing gets over, you will start seeing the retraction in growth markets start coming back, so it is different parts of the year playing out differently for different tiers of towns. As we said that in terms of rain, sowing and everything going in the right space, right direction with COVID impact slowly getting over, I think we should have normalization happening in terms of contribution of each of these towns. The second question was on scooters?

Shyam Sundar Sriram: The motorcycles and scooters, just between the segments, how has that been.

Naveen Chauhan: We see that the prices of fuel is playing on the mind of consumers, but with Hero as a brand, I think we have a very high value proposition in terms of the TCO, both in terms of the fuel efficiency that our products deliver, and also the cost of ownership once you buy the bike. While it will have its impact on overall industry, but I think it is going to play out better for Hero.

Niranjan Gupta: Let me also add to what Naveen has said, if we look at the monsoon numbers and the water reservoir numbers and the Kharif crops, we already see that the sowing is 98% of last year. Now on top of that, if you see the MSP hikes that have happened in different ranges, we do expect the overall farm income to just mathematically go up. We also see water reservoir levels which are above 10 years' average. So as the crop gets harvested, you will see money coming in and you will see therefore that getting manifested in demand. On the TCO, actually I am not so sure that the TCO adversely impacted, but the prices of vehicles have gone up, the resale value of the vehicles have gone up. In fact, in some cases what we have seen is that actually the resale prices of the vehicles have probably gone up more than the original price or the OEM price of the vehicle that has gone up. So honestly, I don't think the TCO has got impacted from that perspective. If you net off the resale value and on fuel, like Naveen said, because of our bikes being more fuel efficient, actually that augurs well from the market share point of view as well.

Naveen Chauhan: And as Niranjan, you also mentioned in the initial part, that there is a personal mobility factor which is playing very strongly, I think the solution lies in coming with innovative finance offers and that is something that we are exploring with our partners.

Shyam Sundar Sriram: Sure sir, that was very helpful. The second question is on the capital allocation. You did indicate a capex of between Rs. 750 to 1000 Crores, how do you think of capital allocation between the existing product development, specifically we have more focus on the premium product development and the electric vehicle development per se. What is the kind of investment one would have to think about from an EV perspective over, say 2 to 3 years, if you can share your thoughts of capital allocation, Sir.

Niranjan Gupta: It starts over a medium term, like we have announced. I am not sure if it 2 to 3 years or 3 to 5 years, but if you look at it over a medium term, we are talking about broadly as we announced, as Mr. Munjal also announced, that 50% of our investment to go towards EV, to go towards premium, to go towards global business. So those are the key priorities which we will see, and of course, our investment includes what you can classify as capital or R&D or brand, so you have to see holistically the investments that are going in, but that is a broad trajectory while the other 50% actually feeds the core.

Shyam Sundar Sriram: Sir, one housekeeping question, the other operating income alone if you can share, thank you.

Niranjan Gupta: Sorry I did not get that question.

Shyam Sundar Sriram: The other operating income, Sir.

Niranjan Gupta: While it can be calculated because I did give out the parts number, but the other operating income for the quarter was 110 Crores. For Q4, it was 200 Crores, and last year same quarter was 67 Crores. The other operating income was 50% higher than the same Q1 last year. It was lower sequentially, obviously because other operating income comprises of physical incentives, and as your volumes are lower, therefore your physical incentives are also lower.

Shyam Sundar Sriram: Thank you very much.

Moderator: Thank you. The next question is from the line of Venugopal Garre from Bernstein. Please go ahead.

Venugopal Garre: Thanks a lot for the opportunity. One of my questions again is on EV, just wanted to understand that we all understand all the three different ways in which we are approaching the market. Now the point is that in terms of charging infrastructure viability, Ather has their own network, you will have your own network, the swapping requires a different network, so in that long term construct, doesn't it really makes sense to at least have some commonality between the three different things that you are exposed to, especially on the battery pack, configuration, chargeability of pack? I am asking this because swapping in general also requires you to have some degree of total capital investment into extra battery, otherwise we really cannot make the swapping work, so there is a cost associated with that. So any thoughts around that, how that will evolve for you?

Niranjan Gupta: That was an excellent question. As it moves and evolves, you are seeing charging infrastructure that is being put up by the government, the charging infra that also OEMs are looking at. As it evolves, obviously there are lot of discussions that are also happening around standardization and around interoperability, so that theme will evolve, and eventually whatever makes more sense in terms of combination of capital efficiency and customer convenience, I think these are the two prime drivers which will be there that will drive the entire industry towards the necessary levels of commonality, factoring of course safety and innovation, and all the other points also into consideration, so that space will definitely evolve as we move forward.

Venugopal Garre: My second question, I think this might have been discussed even earlier. I just wanted to refresh on this, more on distribution side of this. Now that when I look at the kind of things you are doing, it is like almost everything like from entry level bikes to premium, to scooters, motorcycle as well EVs, of course. Ather is a separate distribution network but I don't know how you plan to do Gogoro's distribution as well as your own EV distribution, so the point is that how does the distribution network evolve, because when I actually visited your distribution outlet, then I just had this feeling of vehicles of various variety around, so I don't know how you actually intend to, sort of, build that network over a period of time. I am sure parts of this might have been discussed earlier as well but with this electric piece coming in, I just wanted to understand how that will evolve for you?

Niranjan Gupta: So again Venu, watch this space is what I would say. But, overall as a strategy which we have said already, firstly we have to look at the reach of our network which is there, almost 6000-7000 touch points across India is the widest reach and therefore is a big advantage for us, whenever we want to do anything on the back of that. Consider any new player who has to put in investment behind manufacturing site, behind forcing capability, behind organization, behind distribution, there are lot of investments that are required, but for Hero it is about capitalizing and leveraging a large part of that.

As you come to premium, where we have already said that as the portfolio builds, apart from of course being present in our current outlets, there will be face lift and of course premium channels. Some of the outlets will be launched over the next few years which I have already talked about in the premium strategy. As far as EV is concerned, when we launch we will talk about how we are planning to distribute, but internally the team has worked 360 degrees on all aspects of the launch including the distribution, marketing and everything, and you will see that rolling out very clearly once we launch our product.

Naveen Chauhan: And just to add to what Niranjan just said, there is evolution that we are seeing in our products, there is evolution that we see on consumer needs and consumer aspirations. There is a little evolution that we have seen in terms of distribution outlets being designed, and you would now see that there is a digital play that is going to get integrated into these outlets. There is a standalone digital distribution that will kind of start evolving, and we are seeing green shoots in that space, so as we said, watch for the space and how it evolves.

Venugopal Garre: Thanks a lot, that is it for me.

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

Arvind Sharma: Good afternoon, Sir, and thank you so much for taking my question. Slightly detached from the quarter results but since it is topical, what has the incumbent majors in two wheelers including you and your peers, why have they been slightly more reactive to EV given the stronger legacy of highly developed R&D which we saw and outreach status in multiples of what a new company could achieve. I understand that you showcased your prototype maybe in 2014 Auto Expo. Could it have been that Hero would have been more proactive or is it something that is more strategic in nature that maybe you are waiting for the infrastructure set up or partnership, because what Hero brings to the table or even other players bring to the table, that is not very easy to replicate for a new company who probably does not have an access to so much R&D and parts immediately. So that is the first question Sir.

Niranjan Gupta: It is not about being reactive first of all, and of course, we can see for ourselves. Our investment in Ather was in 2016, because there are multiple ways of getting into a business. Either you do everything your own or you actually invest and be the largest shareholder. So through that vehicle, I would say that we were ahead on the EV game already. Secondly, it is important that for any new player who is not the existing OEM, it takes years to build what the current OEMs have already built. So therefore, it is far easy to get onto that path by the current OEMs, and somebody who is starting from scratch and building up R&D, building up sale, building up organization and the time that takes. Thirdly, remember that everyone needs to be judicious and measured in the approach because if you go too fast, 5-7 years back, you did not have infra, you did not have same subsidies, you didn’t have all of that stuff, all the combination needs to come into play to ensure that while you do this, you are doing in a more commercially prudent manner, and that is exactly what we are doing and that is exactly what you will see once we launch our product. I mentioned this comprehensive response to Venu as well.

Arvind Sharma: Thanks Sir, look forward to the new model. Secondly, probably it has been touched early in the conversation, swapping or charging essentially in the power infrastructure, what is the plan? Would you have franchise or separate charging agencies, how would that function because suddenly, when you have an EV, this becomes an important part of the whole proliferation strategy. Do you have partnership or franchise model in mind or how it will function from here on?

Niranjan Gupta: The business models will evolve and we are open and evaluating all the business models. As we said, the key drivers of these models will be scalability, will be viability and will be capital efficiency, and of course, customer convenience. These are the factors that will drive to which business models we go. It could even be a combination of different business models because India is not a story of one India, but actually India is a story of many India, all of these evolve, and as I said our teams are working on all aspects of EV including the charging infrastructure that we talked about.

Arvind Sharma: Thank you so much for taking my questions. That is all from my side.

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

Basudeb Banerjee: Thanks for taking my question. Thanks for initial comments on the scooters route, where EV are going to take the initial years, and all the problems and market share, so how to look at the initial phase of electrification, the scooterization in EVs will only be limited to substituting existing petrol scooters or as the largest two wheeler maker in India, you feel that risk of substitution from executive level bike to an e-scooter also because of limited offering in e-bikes.

Niranjan Gupta: Basu, thanks for the question. If you look at how the TCO pans out of EV scooters as of now. They will take almost 3 to 5 years to actually breakeven to the traditional scooters itself. When you compare with bikes, substitution of bikes into EV scooter through cost economics, we do not see that happening because they are far off when you look at the TCO, simply given that the bikes fuel efficiency versus scooter fuel efficiency or the resale price, everything that you take into equation and also the purposes for which bikes are used, the performance levels, all are very different, now that will require very different levels of battery configuration. Long story short, we do expect the EVs to actually come out from the scooter category and not from the bike category into the EV scooter category, which is why we do believe that for us with a current 10% scooter market share that we have, any evolution in the scooter category on EV side, we expect it to be accretive through Hero portfolio on topline.

Basudeb Banerjee: Sure Sir, completely agreed but suppose after 2 to 3 years, with realization happening and if e-scooter TCO is comparable to executive bike TCO, under such scenario how to look at it, Sir, not in next two years for sure.

Niranjan Gupta: Certainly not in next 5 to 7 years and beyond, that obviously our own EV portfolio would have evolved so we will be up in the game, and as it evolves then of course as we said, for us it will be more about getting more accretive whether it is one form or energy or another form of energy.

Basudeb Banerjee: That is great, Sir. Second thing, this raw material inflation which has been happening almost for last three quarters and price hikes happening, so at current juncture where do you see further scope of raw material inflation, when you see it peaking out and convergence of price hike with the raw material price.

Niranjan Gupta: Thanks Basu, I did kind of respond to Chirag earlier on this, but let me just reiterate, we do think that commodity, where they are steel, aluminum or otherwise, it is very difficult to predict commodities. But, given the range it has gone up to, and super normal margins at the industry now has on this commodity, the law of economics should prevail and therefore more supply should come in and price should balance out. I would say that we should probably be closer to peak than to bottom as far as commodities are concerned. We have been taking judicious price increases, very measured steps every quarter we have seen, and moving forward, I think by and large we should be able to neutralize, and then next 2-3 quarters we recover the under recovered position back through a combination of savings and price increases.

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

Hitesh Goel: My question is on the investment you made in Ather. I mean you said the company had invested in Ather at that time because company was not agile enough to look at EV. Now we are launching EV on our own, and I think it is not a big investment from your standpoint, so just wanted to understand what has changed because you will be now running a parallel portfolio. Ather will have its own portfolio and you guys will have your portfolio, this can lead to cannibalization also in the market, so why spend in Ather first of all. Have you learned something or learning has been much greater in your product development? Can you share some light on that. How has been the journey with Ather?

Niranjan Gupta: So, Hitesh, as we said, EV is a category which is evolving, and our view is that a multiprong strategy works better from that perspective. Also, it is not one on one cannibalization that happens because there are multiple brands that get to play in a category, and especially when it is nascent category, it will have space for more brands. We are not really concerned about that. Of course with a closer collaboration with Ather. There is always exchange of knowledge, thinking, leadership, and that benefits both companies, and moving forward, like we said, there are multiple opportunities whether it is on the charging side, whether it is on the backend side of the capital efficiency, there are multiple opportunities of collaborating, so we see that as a strategic investment and that is how we have been participating with Ather.

Hitesh Goel: Just a follow up on the EV side, basically the main concern we are adhering on the scooter side, OEMs are offering 50,000 km as the warranty period after which the battery degradation is quite significant, because of which customers are not quite sure to move to EV right now, because Activa runs for 1,00,000 km or so, so is there a thought on how should we improve that, given the cost consideration and range also, because OLA is talking about 150 km range. Would there be a product differentiation there from Hero versus regular scooters, what do you think about that?

Niranjan Gupta: So Hitesh, obviously all the products specs and all will be disclosed when we launch the product, but I think you have a general view of this and you have rightly picked up. There are multiple factors that needs to be addressed as an industry whether it is the range, whether it is the charging time, whether it is the capital cost, whether it is the cost of battery itself which should be coming down with scale, and therefore you come to a viable solution which is viable from the manufacturer's point of view, and then convenient from a customer's point of view. So I think we will have to address both as an industry, and of course, that will take time, and as it evolves I am sure more and more solutions will emerge and come. Some through collaboration and sometimes it happens through competition itself.

Hitesh Goel: Great, all the best guys. Thank you.

Moderator: Thank you. The next question is from the line of Kapil Singh from Nomura. Please go ahead.

Kapil Singh: Hi Sir, good afternoon. Can you talk about exports? You have seen very good traction over there, so which are the markets that are doing well for you, and what are the things that are going right and how are the order books looking, is the current run rate sustainable?

Niranjan Gupta: Kapil, thanks for the question. I was just waiting for someone to ask a question on exports, and as you rightly picked up, the trajectory is looking good. In fact, we had highlighted in the last call as well, we are at a run rate of 300,000 on a per annum basis right now, versus where we used to be at 2,00,000 earlier, and we have much higher targets to move on that. There are traction even in our current markets, we are seeing positive market share movement in 7 out of the 8 key markets. Of course, our current market shares are small, but as we pick up, the trajectory is right. As you know, we tied up with a distributor in Mexico, the retails have started in Mexico. As far as Nigeria is concerned, we launched our renewed products, which appeals to the taxi segment which is the biggest segment in Nigeria, where we have actually in fact trained more than 6000 mechanics across Nigeria, along with a 360 degree campaign. So a lot of stuff is happening around global business in terms of products, in terms of roll out, in terms of service network in the countries that we are there, and therefore we remain extremely positive about the trajectory of our exports volume or the global business as we call it, and we are seeing those happening in our numbers as well.

Kapil Singh: Sir could you tell us on the price increases, what is the average price increase we have taken and how much is the raw material cost inflation we are seeing?

Niranjan Gupta: Kapil, I think I did cover that. The price increase we took from 1st April was around Rs.600 per vehicle. We took from 1st July which was close to around Rs.1200 per vehicle. The commodity cost had gone up in Q1 by close to around Rs.2000 per vehicle, but a large part of that along with the 600 price increase is also offset by LEAP savings, and the balance you see is the impact that has come in the P&L. Moving forward, as we said, we have taken Rs.1200 price increase, and along with the combination of saving, we do expect the forward cost to get neutralized and thereafter, of course the recovery of margin in second half through the standard price increases as the commodities top off.

Kapil Singh: Okay Sir, thank you and wish you all the best.

Umang Khurana: This is the Hero management. Thank you everyone for coming in. A pleasure to connect. Happy to take your questions offline now and keep safe, everyone. Hopefully when we speak next quarter, life and everyone will be so much happier. See you, have a good day.

Moderator: Thank you. Ladies and gentlemen, on behalf of Motilal Oswal Financial Services Limited that concludes this conference. Thank you for joining us. You many now disconnect your lines.