



“Hero MotoCorp Limited
Q3 FY2022 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to Hero MotoCorp Q3 FY2022 Results Conference Call hosted by ICICI Securities. As a reminder, all participant lines will be in the listen-only mode, 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. Basudep Banerjee. Thank you and over to you Sir!

Basudep Banerjee: Thanks Tanvi. Thanks to Hero MotoCorp Management for giving us the opportunity to host the 3Q FY2022 Post Results Conference Call. I would like to hand over the call to Mr. Umang Khurana, Head of Investor Relations and Business Support, Hero MotoCorp. Over to you Umang!

Umang Khurana: Thank you Basu. Thank you for hosting us, lovely to see all of you and speak to meet you again. I trust you are having a good day, keeping safe and healthy. To discuss the quarter, our performance and future outlook, we have today for Q3 FY2022 call, Niranjn Gupta - Chief Financial Officer and Naveen Chauhan - Head of Sales and After Sales. We will begin with an opening statement from Niranjn and then open it up for questions. We will now pass this baton on to Niranjn. Niranjn over to you!

Niranjn Gupta: Thanks Umang. Good morning, good afternoon depending on where you are joining from and welcome again to Hero MotoCorp’s Earnings Call.

As you would have seen our financial results announced yesterday evening, we declared revenue of INR 7,883 Crores, an EBITDA of INR 960 Crores and INR 686 Crores of profit after tax. In terms of our topline performances, our domestic market share has grown sequentially by more than 100 basis points, our global business has been consistently doing well over the last few quarters and is on track to close at around 300,000 units by the fiscal year 2022, which would almost be 50% higher than our historical run rates over the last 4-5 years. Additionally as you would have seen from our results consistently over the last 7-8 quarters, we have been focusing on non-two-wheeler product revenues as well and therefore our PAM business which is the parts, accessories and merchandise business clocked a solid revenue of INR 1,186 Crores in Q3 registering a growth of 15% year-on-year basis, and consistently we have been now clocking over INR 1,000 Crores on quarterly basis on our PAM business, and we expect that to continue to grow in future as our activities on this front are giving us handsome rewards.

Coming to the outlook of the industry, as we know fiscal year 2022 was impacted across the industry by two pandemic waves and also the second challenge as we have said of the commodity cost inflation. As we move forward, let me talk about the demand side, we have seen the GST collections at their almost highest ever at INR 1.4 lakh Crores, we are seeing now pandemic wave in Omicron actually heading out, phasing out, rapidly dropping, also recognizing that all the other sectors which were either stop start or not open fully are now opening as you

can see from various announcements by the state governments, especially the opening of colleges, opening of the hospitality sector, the entertainment sector, all that augurs very well as far as the income and rural demand is concerned. So, therefore we do expect a much broader economic recovery rather than a shallow recovery as we move forward to fiscal year 2023. We have also seen the budget which is widely focusing on capex expenditure up by 35% over the last year and that would trigger a cycle not only of employment and income but also actually trigger a private capex cycle. So I think combined all of this should have a significant positive impact on economy in general and two-wheeler sector in particular.

As far as cost and margin squeeze is concerned, we have seen a lot of commodities now peaking out, we have seen precious metals, we have seen steel peaking out, and obviously as we move forward we do expect the commodities to have peaked out and therefore the cost pressures to be far less and we will keep continue to take calls on judicious price increases along with the accelerated LEAP savings that we continue to do in order to manage the impact on customers as well as on margins. So overall when we look at the outlook for fiscal year 2023, we expect strong rebound in the two-wheeler sector and we do expect the cost pressures to ease off in industry as such. We continue to launch more and more products in the premium portfolio to boost our market share and that will help us moving forward apart from the premiumization and obviously the scale-up of global business that we continue to do.

On the EV front as we have announced earlier itself, we will be doing our launch in the month of March and we continue to invest strongly behind our current investments like Ather and Gogoro for which you have seen the announcements already. Apart from that we are forging collaboration and partnerships with many players in the ecosystem and therefore we are addressing EV as more of an ecosystem rather than a product or a stream of revenue. With that let me now hand it over back to you Umang to open the floor for questions and we will be happy to elaborate, explain and clarify all your queries.

Umang Khurana: Thank you for that. We will now take questions.

Moderator: Thank you. 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: Hi! Thanks for taking my questions. Two questions from my side, firstly on the investments that we have made in the associate companies that is Ather and Hero FinCorp, could you just talk a little bit more on both of these, firstly on Ather as to how do we see this association progressing over time, does it go beyond the stake that we have in terms of alliances on the business front as well, and secondly on Hero FinCorp now this is a pretty large capital infusion that we are doing when the industry is not growing, so maybe give us more color on what is the thought process behind this or is there some asset quality risk that we are anticipating in the business?

Niranjan Gupta: As far as Ather is concerned, as you have seen consistently every round we have been participating in the capital raise and over a period we have been increasing our shareholding as

well. Beyond that you are absolutely right, both the companies are exploring collaboration in the spaces where there can be synergy. We strongly believe that EV currently is more about partnerships and collaboration rather than competition because it is the category that has to be built under different streams of revenue and with optimization of course. So whether it is, let us say charging, whether it is maybe global business, whether it is a front-end, so there are multiple collaborations being explored between the two companies. Already there is a lot of learning which would get cross-pollinated between the two companies which will help both the companies and our EV investments moving forward as well.

As far as FinCorp is concerned, you would have seen their announcement, they have closed capital round of INR 2000 Crores which is a capital raise. This will help them almost double their AUM from their current level of around INR 26,000 Crores to almost close to around INR 50,000 Crores. Their liquidity remains strong; their gearing ratios are at around 4.5 against the allowed stake, so it is providing them headroom. First two quarters like most other NBFCs because of the pandemic and others, they had the challenge, like across the NBFC sector as you would have seen on the GNPA's, but in Q3 they have turned back again and they have delivered a profit of INR 130 Crores for the quarter. So we do not see underlying or continuing issues as far as the asset quality is concerned, those are all one-offs which is the GNPA across the industry which happened. So this capital will actually help FinCorp grow because as we come out of pandemic and which we have, I do believe it will be back to growth for NBFCs. India's credit to GDP ratio is very low and therefore it augurs well for well-funded NBFCs which have strong parentage and actually offers now a renewed opportunity to grow given that the finance penetration in India is still very low. So it actually builds them towards a much stronger business as smaller NBFCs start to consolidate in future.

Gunjan Prithyani: Second question is on the margin. You kind of touched on the mix improvement we are seeing, but if you could also give us some sense on what kind of price hikes that were taken during the quarter and if anything after that and are we pretty much covered up for the commodity inflation now?

Niranjan Gupta: As you would have seen our EBITDA margin which we declared for the quarter is 12.2%, obviously there is some bit of recovery yet to be made. In terms of price increase what we did, we did from around 1st of October, last week of September close to around Rs.1,000 ex-showroom price and from 1st January we took close to around Rs.500 ex-showroom price hike, so we will continue to calibrate that moving forward as we see these gradual price adjustments combined with commodity softening that should help us actually in terms of margin recovery. So that is how we expect it to be played out, but as you would have seen, we continue to take a balanced view between what price we have to pass on blending it with the savings, of course sourcing it in an effective manner and obviously we need to cater to growth as well.

Gunjan Prithyani: Thank you, I will join back the queue.

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

Vimal Gohil: Hi! Sir, thank you for the opportunity. My question on gross margin has been answered. The second one what I had was on electric vehicles, what would be your distribution strategy, are we setting up a new distribution channel or will we leverage on our already strong existing distributor network?

Niranjan Gupta: Good question. So first of all let me take a bit of a broader view. There are certain inherent strengths that incumbent players like us have, which is whether you call it manufacturing scale, logistics distribution scale. I touched upon in the last earnings call as well, with a sourcing scale, all of these actually help us in terms of reducing the cost of acquisition of customer and reducing the investment which is required to achieve a certain scale in EV. Equally on the distribution side, the reach that we have at the nooks and corners of the country, certainly it will be helpful. What we are working out is a strategy where of course there will be certain exclusive stores as well but obviously in more ways than one we will be looking to leverage our existing strength as incumbent including with manufacturing, sourcing, R&D, logistics or our network.

Vimal Gohil: The existing stores are well equipped in order to service the customer in terms of, because electric vehicles will require some separate skill levels in terms of servicing, etc., so do you think we are prepared for that particular angle or how should we think about that issue?

Niranjan Gupta: The servicing essentially is of the two elements, if you talk of the software part of it, it is mostly over the air, so it does not make a difference where you sell from and the other are physical parts which would be no different in terms of servicing whether you do the servicing from X place or Y place or ICE or EV. Now please we also need to remember that there are different profiles of the customers, so the customers at the city or the metros would expect a certain experience, certain environment as you go to Tier-2, Tier-3, Tier-4, and you are trying to attract those customers the environment need not be very different. We are blending in all these learnings which are there from our knowledge of the customer base as well as from what has been the EV players' experience and blending that to suit the channel. The strategy and the modification that we will ultimately deploy, you will hear more about this when we do our launch.

Vimal Gohil: We are also baking in some dealer profitability because if the software is going to be taken care over the air then the end servicing is a large portion of the dealer profitability, how are we taking care of that, that would be my one question and lastly if you could just highlight your capex for FY2023 and what are the investments that you planned for Ather and Hero FinCorp?

Niranjan Gupta: As far as dealer profitability is concerned, again while I will not get into granular details but that is again another area where as incumbent we will be much better off because remember EV is coming on top of our big base of ICE, so it is not that every dealer will have to be exclusively profitable on EV, of course for the exclusive stores they will need to be, so all those economics, all those viabilities, whatever it is for the industry, all I can say is that we will be much better off

vis-à-vis the industry dynamics and eventually whoever comes into EV space will play for the long-term and not profitability in the short-term, in any part of the eco chain. What was your second question?

Vimal Gohil: Capex requirement and investment in Ather and Hero FinCorp.

Niranjan Gupta: As you know we do not give guidance on the on the capex requirement of FinCorp and Ather, all I can say is FinCorp is now fully funded to almost doubling their AUM so we do not see any requirement coming up probably even in the next couple of years, and obviously at some stage they will also have to plan for their listing and their IPO. As far as Ather is concerned, the company will continue to evaluate the EV landscape and the EV path. Of course the current round also, they need to close the capital round, they have not closed the capital round and after that only they will be able to assess when the next requirement will be.

Vimal Gohil: Your own capex?

Niranjan Gupta: We will talk about it in our Q4 earnings call.

Vimal Gohil: Fair enough Sir. Thank you so much and all the very best.

Moderator: Thank you. The next question is from the line of Binay Singh from Morgan Stanley. Please go ahead.

Binay Singh: Hi! Team thanks for the opportunity. Quickly just on Gogoro, is our tie-up with Gogoro exclusive or others will also be allowed to use their battery swapping station?

Niranjan Gupta: The JV that will be formed which will have the swapping network, that will have exclusivity in terms of the swapping tie up with Gogoro. Now whether that JV operates to serve only Hero product or later on together we both decide to expand it to others, that something is for the JV to take a call. Once the JV is formed and it can very well form a different stream of revenue as well apart from just catering to Hero branded products, but those are things that once the JV comes into being will get decided.

Binay Singh: Secondly when we look at electric vehicle launch of your peers, they have launched models for more than a year yet we see limited city launch volume still around 1,000 unit or so, hampered either by production issues or supply chain issues, and you are looking into your electric launch, how are you looking at resolving these issues? Are you going for a similar limited city sort of a slow ramp up or planning to go for a Pan-India launch?

Niranjan Gupta: So, at this stage all I would say is wait for further announcement so when we do the launch at that time we will actually come out and share what our overall plan is. Honestly it is not a start that matters but eventually, as you know, as Hero MotoCorp we would cover all segments whether it is premium, mid or mass segment on EV because our objective is to enable electrification for everyone or not just for exclusive set of people or exclusive set of geographies.

That is the endeavor that we will have to actually straddle across the segments and accordingly obviously saddle across the geographies as well. Now what pace, what speed, what scale up that is something that we will share closer to the time.

Binay Singh: Thanks for that Niranjan. Just lastly one question on the consumer trend, everybody has been waiting for replacement demand in the two-wheeler industry to come. Have you seen any change in consumer trend as in replacement as a percentage of share rising or so in the last few months? Anything on first time buyer versus replacement trends at the consumer level if you could share?

Niranjan Gupta: Let me hand over this question to Naveen.

Naveen Chauhan: Namaskar to everyone who is on the call. On the replacement buyer, we have seen that since the time the pandemic has hit, the consumer has actually not come back to the level that they were before pandemic; however, in the recent two months, I would say more in January that we have seen the replacement buyers coming in and I think one of the proxy that we also to look at for the replacement buyer not coming in is also the increase in the paid service load in a dealership workshop, so that is the proxy that we take and in January we have seen in some of the markets of UP, Bihar, Rajasthan there is a bit increase in terms of contribution of replacement buyer. Thank you.

Binay Singh: Thanks for that and any percentage number, like what percentage would roughly replacement be?

Naveen Chauhan: So it will be around 20% or so, that is where it operates, it was far higher during pre-pandemic times.

Binay Singh: Okay great, thanks so much.

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

Aryn Pirani: Hi! Thanks for the opportunity. First question was just a clarification you mentioned in the release that you have invested INR 150 Crores in Ather post December, is this part of the INR 420 Crores full round that you have announced if you can just help us understand?

Niranjan Gupta: Yes, it is part of the full round of INR 420 Crores, you are absolutely right.

Aryn Pirani: Secondly, just on the core business we have discussed this for several quarters now as to how you and potentially the two-wheeler industry has actually managed to maintain pricing and even profitability during three years of downturn now. So just want to get a sense from you is that given that financing share continues to be quite low how should we look at profitability going forward because we are hitting peak profitability in terms of EBITDA per vehicles at a time when the market is 30% lower so how should we think about this because this is not something that we have seen in the past?

Niranjan Gupta:

Let me just give some example in terms of the pricing, so even as you see today one normally draws a very direct correlation between pricing and demand but actually it is not so, what we have seen is that demand is more impacted by other factors than essentially price, as long as you are able to provide value to the customer. So for instance if you see even in these times, let us take Glamour, when we have launched Glamour Xtec which is almost at Rs.4,000 to Rs.5,000 per vehicle higher than the base Glamour, people are lapping that up and Glamour Xtec has become more than 30%, 35%, 40% of our overall Glamour. Now, therefore even within those segments if you are providing the right features and value add to the customer, the customers are taking up the variant which is actually priced higher provided they see value in it. So, I think that equation which as long as you keep getting it right then fundamentally one does not see pricing as a big issue, and pricing pass on is a big issue, obviously it has to be calibrated based on the different segments.

The last two, three years as you rightly said have been years of commodity challenge as well as on the underlying demand because of the pandemic multiple waves and of course there was a BS-VI transition as well, as we move forward we see that a lot of these big shocks are behind us and obviously the commodities also cannot keep going up forever, and nothing is going up forever or going down forever, so when you look forward then you actually see these things coming together nicely as a sweet spot, which is people's income coming back, people wanting to spend more and also it is about once you decide it is not a consumption spend, it is a spend that you have decided you need to do and obviously because of the consumer confidence a lot of stuff which was held back is likely to then come back. We do not see this as a conundrum or an issue, and I think we have been very sensible in not passing the entire cost as you would have seen. Probably we would have taken price increase which is close to maybe 50% of the cost increases that have happened and another 25% made up through LEAP savings and the balance 25% broadly absorbed in the margin. Very, very broadly that is the configuration that we have done so we have been very, very sensible and mindful of the impact on customer as well. Let me just also ask Naveen to add on this front, anything you want to add Naveen?

Naveen Chauhan:

I firmly agree with you and in fact the consumer especially in BS-VI trend, if you look at across the segments not just one or two or maybe premium, we have seen this happening even in the commuter segment. Splendor, wherein the premium variant is introduced and that gets lapped up, the consumer is primarily looking at value and also we have raised with the point of the financing being low, I think that is also we have seen very innovative financing models appearing, OEMs working with the financiers to evaluate and evolve those models and offer the customer, and we have seen the result of that in terms of the finance penetration that has gone up in the last one year.

Niranjan Gupta:

In fact, just to add on to the financing point, Naveen the other thing as you would have seen in the budget also, more and more financial inclusion happening which is even post offices coming into the space so I think as it happens, more and more gets into the hinterland and rural, financing as a beauty of cushioning the one time or immediate impact of the outflow that the customer faces, so actually as it increases they should augur well for the industry as such itself.

- Amyr Pirani:** Thanks a lot for the detailed explanation. Just one last thing what is the financing penetration right now and if you can share Hero FinCorp's share in that?
- Niranjn Gupta:** So in Q3, our financing penetration was 58% and Hero FinCorp continues to be in the band of 35% to 40%, so it was 35% in Q3 FY2022.
- Amyr Pirani:** On a full company basis it was 58% so there has been a recovery here in the financing?
- Niranjn Gupta:** Yes, across the segment, this is an overall number, but the growth in retail financing has been seen across the segments and across the geographies.
- Amyr Pirani:** Fair enough, thanks a lot, I will come back in the queue.
- Moderator:** Thank you. The next question is from the line of Pramod Kumar from UBS. Please go ahead.
- Pramod Kumar:** Thanks a lot for the opportunity. Before the question just one clarification on the EV schedule, March you go commercially live or it is going to be an unveil followed by a launch at a later date, just want to clarify that?
- Niranjn Gupta:** So you will get to know the entire details in the month of March itself, so we will be announcing the entire plan of when the ordering will start, when the commercial dispatches will start, the sales will start, and all of that will get announced in the month of March along with our launch.
- Pramod Kumar:** The first question is to Naveen on the market situation because we have heard staple companies to even tractor companies complaining about the rural inflation on the agri side which is hurting farm income and generally demand has been very weak and even our market share trends kind of further at around 31% in January after VAHAN but the rural segments are definitely suffering more so what is the confidence, based on which data are you getting the confidence that FY2023 is going to be a good year for the industry in terms of recovery, outside of the base effect of course of the first quarter, because most of the other companies are warning about how incomes are taken and not for bulk of India and the disruption from delta variant and savings being wiped out and the prices being moved heavily right both vehicle prices and the fuel price so what are the data points which are giving you that confidence on demand recovery?
- Naveen Chauhan:** You are right that if we look at what has happened over a period of time, last year especially the second wave which was far more lethal than what was expected and in fact it was far more deep in the country and it hit the rural sentiment far more deeper. Post that you had delayed monsoon which also had a major impact on the rural crops and hence that continued till as late as December and part of January. What gives me confidence is the recent footfalls that I see in markets like UP, Bihar particularly eastern UP and the central UP part that I see, more and more footfalls are coming into my secondary network which is more of rural based. I also firmly believe that the bottoming out has actually happened. Also if you look at consumer confidence index, that is with a little bit dip in the month of January because of the third wave we also think the signs are going up. Now while there has been an impact in the Kharif crop, the Rabi sowing

has been pretty good and there is lot of focus that the government has in terms of investing in rural and getting that segment back and it is very, very critical for the country. In terms of the double digit number that Niranjana shared in his opening comments, I think if you look at base effect of Q1 and then subsequent to that if we get on to the long-term averages, I think we will get that kind of a number from the industry perspective.

Pramod Kumar:

But given the cost inflation the long-term averages, do they really matter because the long-term average on inflation is 1% or 2% but the vehicle price has shot up by 35%-40%, fuel prices are up 50%, income levels are down, so is the industry being a bit too optimistic in terms of making the deduction and also related to that how are you reading the marriage season demand because last two years we did not have the marriage season in the summer unfortunately, which is the second largest buying season so because it is very critical that when you have a good start to the year with the marriage season, so if you can make comments on that as well?

Niranjana Gupta:

Let me probably supplement what Naveen said, but first of all what happens in the times of Euphoria we get too euphoric, and the times when things are down then we get too pessimistic. I think we should not forget that the base impact has been severe and as we have come out even today, the consumer confidence index is the highest in the last two years sitting at 60.

Second thing is when you look, in the last two years it is only now with this wave 3 that some of the sectors which are not even opened up are opening up, colleges opening up after a gap of two years, you can see the entire sector of the economy actually opening up now, that provides confidence otherwise people keep thinking in rural which was rightly so after the wave 2, that maybe I need to save for X, Y, Z we do not know what else is coming now, that confidence is returning back that maybe life is coming back to normal, so that is one part of the whole thing.

Naveen did explain about the delayed monsoon, etc., all those factors, and third of course you see the large expenditure in the Union Budget, the confidence of the overall ecosystem on the private industry which is coming back on the capex cycle, so I think all of this actually really augur well, and finally industries are cyclical, so after three years of negative growth the whole cumulative pent up that gets accumulated or has got deferred is bound to come back, so actually therefore we are extremely positive about this. We do not see a delta like impact again coming into fray, those are once in a hundred years kind of event and therefore we should not take those as underlying reflection of demand.

Naveen Chauhan:

Also I think with the experience of Omicron, subsequent to that both the administration as well as people by and large have also adopted to the change of life. The question was also about what is happening in the marriage market, we have seen that there is a retail uptick in the core marriage markets in the month of February and another factor that I also look at, not just the retail growth that we are experiencing in the current month, it is also about these purchases are normally a cash purchase and hence this trend that we were observing in terms of retail finance penetration for last four, five months we have seen that also dipping a little on account of the

cash purchases that happened in marriage markets, so in the core marriage markets there is a positive take.

Pramod Kumar: System inventory now at dealers?

Niranjan Gupta: In terms of forward looking that we look at on our retails, we are at 7-8 weeks kind of inventory right now at dealers.

Pramod Kumar: Thanks a lot and wish you guys best of luck. Thank you.

Moderator: Thank you. The next question is from the line of Rajesh from ITI Limited. Please go ahead.

Rajesh: Good afternoon Sir, if I look at Hero MotoCorp, we are in a sweet spot invested as far as the EV challenge is there because we are also incumbent as well as we have taken one of the, I would say, successful startup entity. my question was, of course there may not be any clear answers at this stage, but if I look at next three to five years when we know that EV penetration would have happened and then a certain substantial percentage of some segments will be EV. Who do you think will be or who has the right to win in this, why I am asking is if we talk to startups their distribution strategies let us say target top four metros in first three months then go to next 10 cities likewise go on funneling so that you capture more area, and everybody is announcing large capacities but so far we have not seen delivery so we do not know what are the challenges and these are the areas where we are, third is of course brand there will be at least 40-50 new guys who are coming up with electric scooters not all of them are as formidable, or buyers may not be as confident on all of them, and these are the areas where all the incumbents are at a very advantageous point so just want to hear your thoughts; and incumbents are also spending a lot of capital as well as effort in the background which may or may not be visible, so three years down the line who do you think could have the right to win, how many players could the market have or will it be a very, very dispersed and fragmented market with everybody, so just wanted to hear your thoughts on how do you look at it, you may have studied some other geographies where EVs have already penetrated so what are your thoughts on this?

Niranjan Gupta: Lots of questions in one question, but let me attempt.

First of all look as far as EV is concerned, in no country in the world it has reached the maturity stage and therefore there are no inferences that can be drawn from that. Having said that, any industry that you look at which goes through entry of a lot of new players because of the attractiveness of the segment or ease of entry or whatever is seen on the valuation side, eventually have to go through consolidation. We have seen in industry after industry and that is the truth globally. So yes, next 3-5 years, you are absolutely right, whereas 20, 30, 40, 50 players, we do not know but there will be many players, there are already many there may be more, but eventually after that it has to run out and consolidation has to happen.

Now who will win, if you ask me I will say we will win, if you ask anybody else they will also say they will win, so let me also talk about maybe the factors that will determine who will win. It

is the understanding of the customer because the EV customer fortunately or unfortunately whichever way we look at it, is also part of the planet Earth and that is what I keep saying that it is not coming from some other planet, so I think if the understanding of the customer whoever has the most that is one very important factor. Focus on giving customers what they need and maybe giving what they may not have even imagined, so focus on the C which is the customer is important.

The second factor which will be important is cost competitiveness. Today that is not being stressed enough, today cash burn is fancy, but moving forward cash burn has to give way to cash earn and that is where cost competitiveness is extremely important, so players who can establish long-term cost competitiveness, whether it is a BOM cost or the capex cost or cost of operating or distribution, etc., that will determine a win.

The third is of course a long-term view of the entire business per se. So these are the key factors and there may be many others of course, but there are capabilities that can be acquired, there are investments that can be made, capital is no longer the barrier, so I think these are the factors that will determine who will win. But of course, we at Hero MotoCorp have said it earlier, we invested in a startup five years back when nobody was actually taking probably EV segments seriously and we have gone ahead with Gogoro which is on swapping network understanding that different customers may require different solutions at the front end for charging, and equally obviously we will be coming out with our own product as well. So we will continue to work very strongly on this as far as the EV segment is concerned.

Finally, I also want to just amplify what you actually rightly said that for us, we are at very low market share in scooters so EV segment, EV penetration actually is a sweet spot for us because it helps us, as we are very underindexed in scooters so it gives us a chance to actually build our penetration in that segment. Motorcycle which is almost 70% is not going to get electrified in a hurry and we all know the reasons for that, so for the first few years it will be about scooter which actually works well from our own portfolio shape and where we are.

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

Raghunandhan NL: Thank you Sir for the opportunity. Two questions, firstly being one of the early movers towards swappable battery technology in terms of the efforts with Gogoro, is the launch on track for the CY2022 timeline, any details you can share on JV investments?

Niranjan Gupta: At this point in time I would not be able to share any further versus what we have shared earlier, but as we move forward and closer to the time we will keep updating you with more and more, but the teams are working very fast on both the solutions to the fixed charging solution as well as the swapping solution.

- Raghunandhan NL:** Secondly, would you be able to share at what valuation you have invested INR 420 Crores in Ather in recent round of funding or would that announcement be made once the funding round is finished?
- Niranjan Gupta:** Your second part actually answers that, so I would not be able to give any valuation at this stage, the round still has to be closed and obviously the company then which is raising the capital will make the appropriate disclosure as may be required.
- Raghunandhan NL:** One clarification on the replacement share which has now fallen to 20% in the earlier years say FY2018-FY2019 was the replacement share closer to 45%, 50%, Naveen Sir?
- Naveen Chauhan:** No, so now what currently it is as I said around 20%, so you might look at maybe plus minus 2% I think it was as high as nearing 30% at one point of time.
- Raghunandhan NL:** Got it Sir, thank you very much.
- Moderator:** Thank you. The next question is from the line of Kapil Singh from Nomura. Please go ahead.
- Kapil Singh:** Good afternoon Sir, a very interesting point you made on the scooter business. I had a similar question, so let me just also try and understand from a swapping perspective. Do you think swapping would be a mainstream product or it would work in certain segments like delivery, what are your thoughts because it requires slightly more investment on a system basis, because you need to invest in let us say 1.5 or whatever that number is, number of batteries, just what are your thoughts around that and are you also focused on increasing the ICE total market share because it has been struggling a bit in last few months so just some thoughts on that?
- Niranjan Gupta:** Let me talk about the swapping first. So we will have to see how the customers evolve, obviously the B2B segment which is the delivery business and all, that is clearly a commercial segment, obviously amenable to swapping. As far as personal vehicle segment is concerned, Taiwan has shown that even there are segments of customers who actually prefer that because they cannot afford to wait for an hour at the charging station or in the queue, and therefore this 2-3 minute swapping works, now how it evolves in India, how it evolves in different geographies honestly we will have to put it in and then see, because this is a new animal and it can behave differently in different geographies, in different classes of customers basis their job profile or business profile, so all of that we will be able to know only once the product is out as to what share it will occupy vis-à-vis the normal charging. As far as the ICE scooter is concerned, let me hand it over to Naveen to address that.
- Naveen Chauhan:** I see that the question got proceeded with the scooters on EV and maybe the huge action that Hero is doing on EV is actually causing that to come as supplement, but just to give you a flavor on scooters while we know that EV is going to grow but then the ICE would still hold the significant share in the scooter segment for some time to come, there are a lot of actions on the product side and the geography side which are in place Pleasure, if you look at, there is a lot of action in terms of premiumization of the product. We launched Xtec, within two months the

contribution of Xtec has gone by more than 20% and I think Pleasure is the only scooter in 110 category, which has gained market share on a YTD level. The change that has happened in this industry which is kind of something which is happening for last three years, is that 125cc segment in the scooter segment is actually growing very rapidly. We are coming up with a very strong product value from the Destini Xtec in 125cc and that is going to be playing in the core belly of the segment. So efforts are on, Pleasure if it was a limited geography product it is going to go getting into the pan-India basis and we are quite positive that with Pleasure there, Destini Xtec coming in, Maestro 125 playing and we have subsequent plans in terms of interesting products for the next year to come to gain market share to our desired levels.

Kapil Singh:

Thank you for that. The second question is you mentioned that one of the important metrics for success in EVs will be also cost leadership, now two important elements are the battery cost as well as the distribution cost, so some of the players have taken this approach not only in India but globally also we have seen where they are into the direct distribution model and also some players are investing in battery, so to address those how are you thinking about these two elements?

Niranjan Gupta:

As we said, cost leadership will define the long-term winners and that is extremely important, it is not just battery and distribution actually there are all aspects of the cost lever which are there, so let me talk about, for instance, swapping which you just touched upon. In swapping, you talked about the 1.5 factor etc., now this road to rack ratio which is what it is called actually that gets improved on the knowledge of your peak time on replenishment, a lot of knowledge that happens and how do you improve that, therefore the density coverage that you want to have, at what distances you want to have the stations, which places, now which is where again if you have an existing knowledge it helps and which is where our partnership with Gogoro comes in, because Gogoro has got four, five, six years of that experience in improving the road to rack ratio in Taiwan, all of that comes handy and therefore that actually can benefit in terms of the cost leadership very, very clearly vis-à-vis a new player in swapping who would not have the existing knowledge of that. So the knowledge becomes an important part and parcel of how you achieve cost leadership apart from the physicality of what you do as a business model on battery and distribution. On battery, of course there are people who have tied up, there are people who are sourcing but our view is that given so many players who are going to come and sell manufacturing, this will be a place where globally or locally given the PLI on Advanced Chemistry, there will be multiple players coming with big capexes on that and therefore the optionality of sourcing on quality and cost is probably a better way forward as we see it now. Of course one keeps evaluating these but this is the upfront on distribution, honestly the direct to customer is potentially more because these startups do not have the existing distribution channel and therefore setting that up would require a long time and huge investments, and obviously for that therefore the direct-to-customer becomes the obvious model to be going fast and therefore eventually if you look at it, the cost leadership in a distributed model which is with network will always be cheaper than direct distribution or direct to customers, given the number of customers that you are servicing and this sheer physicality of the equipment that you are talking about, so underlying economics of actually direct to customer will always be costlier inherently compared

to a distributed network, but I think these things will evolve and one will have to see this scale how it pans out, so too early to take a call on that but focus on cost leadership is extremely important like you said, from a long-term winning point of view.

Kapil Singh: Thank you very much for the detailed answer.

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 there are some housekeeping questions, spare parts revenue you indicated what was the number for the quarter?

Niranjan Gupta: Sorry I did not get the question, can you repeat it again.

Chirag Shah: Spare parts revenue.

Niranjan Gupta: Spare parts revenue for the quarter was INR 1,186 Crores, as I said which is 15% growth year-on-year basis, last year Q3 was INR 1,033 Crores and if you are interested in just preceding quarter which was Q2 was INR 1,141 Crores so we have been consistently clocking more than INR 1,000 Crores every quarter, and as we said there are big plans to actually take it forward. Naveen, why do not you spend a couple of minutes talking about our PAM business and our plan.

Naveen Chauhan: Sure Niranjan, I think you have been helping me there, so I think this is something that we have discussed in the previous earnings calls also. The focus, if I put it broadly is, how do we enhance the non-product revenue bucket, spare parts being the major contributor to that space. lot of work in terms of the core spare parts that we sell in dealerships and across, there is lot of works at the dealerships in terms of growing and focus is not just about growing revenue of spare parts, but also about leadership profitability that emanates from the workshop, and also after marketing the deep distribution approach that we have taken. We are also looking at what are the adjacent revenue streams which are available in non-product revenue which we are talking about and how do we work on that. We worked on oil last year and we have seen significant growth in the oil revenues and also it helps us continue to remain in touch with our consumers who are going to the aftermarket with the brand and hence that is one line, so there is an organic way of going deeper and then looking at other revenue streams in that.

Chirag Shah: How should one look at the product that you are looking to use in the replacement market or after sales market, the options available for you or on which you are looking to expand over next two three years?

Naveen Chauhan: I will give you an example, as I said, if I look at four years back, we were 99% spare parts, started working on accessories then we introduced merchandise which is still a small baby, then oil business and you have got batteries, tires so there are a lot of lines for the consumers, which consumers normally get replaced in after market, and we are having a very strong connect with consumers, I think those are the revenue lines which are available, also within the core spare

parts if I look, like you have products, models, you also have product lines which may be break lines or maybe cables, ABS parts, so there are multiple lines and we continue to monitor what is our market share of these components in different geographies and on an overall level and when you bring about your approach, we have got 1,20,000 technicians which are independent technicians connected with us and, month-on-month there are 60,000 technicians who interact and deal with us. We have seen our revenue technicians growing three times in the last five years so it is 100 Crores plus, basically so that is the number we said, so those are our growth levers that we use for a continual growth that you are seeing over a period of time and quarter-on-quarter we see that positive impact.

Chirag Shah: Sir basically more clarification, is the inventory level you mentioned 7-8 weeks, did I hear it right?

Niranjan Gupta: Yes, and that is from the forward-looking perspective in terms of the way we look at the retail forecast that we have for the month of Feb and March.

Chirag Shah: So this is more to do with delay in the festive or marriage season and that is why the inventory number, generally at this time inventory is slightly lower, so it is largely because of that?

Niranjan Gupta: Yes, you are absolutely right, it is largely because of that, as industry wide we have seen that the festive was not as good as what one expected and therefore that is the carry over. Otherwise you are right, six weeks is the top up that one has at the inventory level.

Chirag Shah: Pre-Covid what was the finance penetration? You mentioned 58% for the quarter so have we crossed that number, it used to be lower if I recollect?

Niranjan Gupta: Yes, I do not think it was more than 40% to 45%. There is a significant shift in the retail finance penetration that we have seen in this year and this is continuing as I said, now it is a combination of the two things - one of course like they have been mentioning a lot of work that we have been doing in terms of finance penetration, and you see quarter-after-quarter we have been talking about our thrust on that, we see that underpenetrated. Second of course is as Covid has impacted, people then try to go for more financing solutions because obviously, like someone asked that how to counter inflation, now one of the ways to counter inflation is actually financing penetration and therefore people themselves go for financing solutions, combination of both the factors have led to the financing penetration increasing.

Chirag Shah: Last clarification, sequentially there is a significant improvement in gross profit margin 130 odd bps now I presume this is more driven by mix rather than commodity benefits coming in, would it be a right assessment?

Niranjan Gupta: I think it is a combination of I would say mix as well as when you see the savings programs that we have been running, so I would not say commodity benefits, I think commodity benefits are yet to flow through because while they are stabilized it is not that they have dropped to give that benefit, but yes it is a combination of mix and the savings that you are talking about.

- Chirag Shah:** Thank you very much and all the best.
- Moderator:** Thank you. The next question is from the line of Nishit Jalan from Axis Capital. Please go ahead.
- Nishit Jalan:** Hi! Sir, I have just one question left. What would be the share of two-wheelers which are sold in schools, colleges and all in general, you may not have exact numbers, any rough number would be helpful in a normal year, not the last two, three years, and secondly would it be too different between motorcycles and scooters?
- Niranjan Gupta:** We do track in terms of the end usage of our products so we may not have a breakup at a scooter and a motorcycle level but, I can share the data that we have - it is close to 8% to 10% is what is getting sold to the students.
- Nishit Jalan:** Okay Sir, thank you so much.
- Moderator:** Thank you. In the interest of time this was the last question, I would now like to hand the conference over to management for closing comments.
- Umang Khurana:** Thank you everyone for coming in, it is a pleasure. Please keep safe and we look forward to speaking to all of you in Q4 as well. Have a good day.
- Niranjan Gupta:** Thank you for attending the call.
- Naveen Chauhan:** Thank you very much.
- Moderator:** On behalf of ICICI securities that concludes this conference. Thank you for joining us and you may now disconnect your lines.