



“Hero MotoCorp Limited
Q4 FY23 Earnings Conference Call”

May 05, 2023



MANAGEMENT:



MR. NIRANJAN GUPTA
CHIEF EXECUTIVE OFFICER



MR. RANJIVJIT SINGH
CHIEF GROWTH OFFICER



MR. SWADESH SRIVASTAVA
HEAD - EMERGING MOBILITY BUSINESS UNIT

AND UMANG KHURANA, HEAD - INVESTOR RELATIONS & RISK

ANALYST:

MR. NISHIT JALAN – AXIS CAPITAL LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to the Hero MotoCorp Limited Q4 FY23 Results Conference Call hosted by Axis Capital Limited. As a reminder, all participant will be in a 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I would now like to hand the conference over to Nishit Jalan from Axis Capital. Thank you, and over to you.

Nishit Jalan: Thank you, Aman. Good afternoon, everyone. Welcome to Q4 FY23 Post Results Conference Call of Hero MotoCorp. Firstly, I would like to thank the management for giving us this opportunity to host this call. Without further ado, I would like to hand over the call to Mr. Umang Khurana, Head, Investor Relations. He will introduce the management and take the call ahead. Over to you, Umang.

Umang Khurana: Thank you, Nishit. Good day, everyone. Welcome to the Quarter 4 and Full Year FY23 Investor Call. We have on the call with us today, and it is my pleasure to have Niranjn Gupta, Chief Executive Officer; Ranjivjit Singh, Chief Growth Officer; Swadesh Srivastava, Head of Emerging Mobility Business Unit. We will begin the call with opening remarks from the CEO. Over to you, Niranjn.

Niranjn Gupta: Thanks, Umang. Good afternoon, good evening, depending on which part of the world you're joining from. I hope you, your families and colleagues are staying healthy and doing well. I am privileged to participate in this call as CEO of Hero MotoCorp. I'm sure you will continue to give your support, as you always have, as we craft the next chapter in this journey of our great company. You would have seen our results announced yesterday evening.

Our revenues grew by 12%, EBITDA by 31%, and profit after tax by 37%. Our margins have recovered to 13% in the quarter, improving by close to 200 basis points on a year-on-year basis. Our focus on non-product revenue streams will continue leading to PAM business registering highest ever quarterly revenue of INR 1,271 crores at 15% of the revenue, and we registered full year revenue of close to INR 5,000 crores, growing close to 25%.

We are excited about the coming fiscal and expect to build on our market share and margin recovery. We have a host of new launches lined up, and we will be launching new products every quarter in this fiscal. We've already announced our accelerated plans to roll out VIDA across the country with an aim to cover 100 cities in the current calendar year. At Hero, we have the widest and deepest distribution system in the country, and we will be leveraging the same to ensure our reach on EV business.

Indian economy continues to be resilient, as you have seen and is one of the fastest-growing major economies in the world, despite concerning challenges as financial sector inflation and geopolitical issues. All the key indicators are moving in the right direction, and we expect the economy to outperform most other countries.

Buoyed by the economy and the other trends that we see, we do expect two-wheeler industry to clock double-digit revenue growth this year. On that note, let's open the floor for Q&A. Over to you, Umang.

Umang Khurana: Aman, let's begin with the Q&A, please.

Moderator: First question is from the line of Gunjan Prithyani from Bank of America. Please go ahead.

Gunjan Prithyani: Congratulations to Niranjan on your new role. So firstly, could you just talk us through what's really been happening in terms of underlying trends, rural versus urban, how did recent festive Navratri go versus made some color on what's really been happening on the underlying retail demand. And it does seem going by FADA comments that the channel is a bit understocked. So could you also talk or indicate as to where our channel inventory is and what's the thought process on restocking?

Niranjan Gupta: Thanks, Gunjan, and thanks for the wishes. As far as underlying trend is concerned, what we have seen is you have seen the overall double-digit growth happening in the two-wheeler sector in fiscal year '23. We expect the trend to continue. Of course, premium is growing much faster than the commuter, but we do expect commuter sector also to come back. The initial sense of the recovery is good in terms of the rural as well. And we do expect the government's plans on the capex spending and the actual capex is to actually come into results as far as employment and income, and accordingly, the spends are concerned on the rural sector. Let me just hand it over to Ranjivjit to elaborate on this further on the underlying trends.

Ranjivjit Singh: Sure. So firstly, it's really good to see the industry bounce back to growth. The overall two-wheel industry has had a good growth. And in Quarter 4, we grew faster than the industry. We grew 3% market share quarter-on-quarter and over 2% year-on-year. So that was good.

Overall, our share in motorcycles was 51%. So that was an excellent recovery that we've had. And we had also talked about in terms of segment, 125cc, we have increased our market share in Q4 to 22%, which was earlier at around 14%. So it's a great, great bounce that we've had now. I'll talk a little bit maybe later on in terms of the underlying reasons for that.

In entry, again, we've had a good improvement in our market shares. We saw an uptick in rural in March, thanks to the festival season. We see that continuing even now as we've got into the marriage season. Overall, it's a broad-based growth that we are seeing across Entry, Deluxe, 125cc, included in that as well as scooters and premium. So it's looking quite positive right now.

Gunjan Prithyani: Anything on channel stock?

Niranjan Gupta: As far as channel stock is concerned, we continue to be around the same zone of 6 weeks of the future sales as the inventory.

Gunjan Prithyani: Okay. My second question is on the VIDA. Clearly, there seems to be some change in the strategy with the price adjustment that we have done. So could you give us the rationale as to why did we change the pricing? Are we looking to get more aggressive from scaling this business

now versus earlier indication that we are more in a test mode? So some thought process around that.

Niranjan Gupta: So Gunjan, this repricing is across the industry. Definitely, the repricing helps access to more customers in terms of the EV category, and that's what you've highlighted that this should enable faster EV penetration in the scooter category. Swadesh, would you like to add something?

Swadesh Srivastava: Yes. Thank you, Gunjan, for that question. As Niranjan said, for the EV category, this is a good change. And as you also have seen in our announcement that we are going to 100 cities this year. And with the new pricing, we expect to grow really fast through our strength in the distribution network as well. So it's a good thing for the category is that's what I can say.

Gunjan Prithyani: Okay. Got it. I'll join back the queue. Thank you.

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

Aryn Pirani: Congratulations Niranjan on the new role. Actually, my first question is a bit related to that. I mean, I think this is the first time in Hero's history where we have an outside professional holding the role of CEO. So can you give us some broad idea as to and I think you've announced VRS at a non-worker level. I mean, I don't know if this is the right forum, maybe you want to do this at a different forum. But is there something that you can tell us in, is there any new formation around strategy for the next 2 to 3 years? How are you thinking about it? Is there something that you would like to guide us from a medium-term point of view rather than just the quarter or the year?

Niranjan Gupta: Aryn, thanks a lot and like what you have said. It probably calls for a different forum to outline the overall road map. However, I just want to share a couple of thoughts. Look, finally, the focus on customer is what is going to create the market cap. The very simple philosophy being that customer's love translates to more products being bought at a higher price premium and for a longer period of time. And that with a viable business model creates a market cap. So in the end, that's going to be the focus.

Of course, the road to that will be accelerated and we'll be looking at various parts of our strategy in order to achieve that goal. But more about that later, and thank you for this.

Aryn Pirani: Sure. Hope to hear more of that, maybe at a later date. Secondly, on the near-term market share and volume trend, so I mean, like it was widely pointed out, is in the fourth quarter, you did see a market share improvement. But if I look at on a full year basis, there were still losses both on an overall basis as well as motorcycle. At least April is just one month, maybe you should not extrapolate, but it has started off a slightly relatively softer note for you compared to the other players.

So what should we think about in terms of launches? Because while Splendor is a great product for us, and it continues to be a great product, it has become a very large proportion of our volumes. How should we think about launches and segments and market share as we look into the next 12 to 18 months?

Niranjan Gupta:

So Aryn, let me start and then I'll ask Ranjivjit to add on. Yes, if you look at a full year basis, there is a loss of market share. But if you look at the trend, last 4-5 months trend, not dispatch trend, but actually, if you look at Vaahan retail market share trend, the trends have been on the improvement.

Now yes, there are things to be addressed, and you rightly pointed out, we have plans to ensure that we do have products other than Splendor in that segment, and Ranjivjit will talk about that. Even beyond that, not just that, we are going to focus, as we said, in accelerated recovery in 125cc segment.

We have launched various Xtec variants. You will see a lot of them resulting in full year volumes and therefore, growth in the year, which is what gives us confidence. You will see a lot of launches in the premium segment in the coming year, while I can't specify the dates of those but just watch out for those. There will be big launches that have come up in this fiscal year, which will then ensure that we can build the right premium portfolio and get our market share on that.

So we have, as I said in my opening comment, we'll have product launches every quarter of this coming fiscal year. And probably this fiscal, we'll see the maximum number of launches that Hero's ever seen in its history. So that's what. But watch out the space, I'm sure we are excited. And when you come to all the details, you will be excited as well. Let me just hand it over to Ranjivjit to talk about how we are going to plan Splendor and the plans for that.

Ranjivjit Singh:

Yes. So let me just start with the entry level. HF Deluxe, we continue to add value to this beautiful product. We've introduced the canvas and we've added features like tubeless tyres and the USB charger. Customers are loving it, and that's also become a brand of choice in the product of choice in rural markets as well as in urban, semi-urban markets. So we're seeing a lot of great traction coming back into HF.

Then if you flank further over to the Super Splendor Xtec, again, some great features you've brought in like LED headlamps, Bluetooth, USB, digital speedometer. Customers are loving it. It's off to a really flying start in Uttar Pradesh, Bihar, West Bengal, and the marriage markets are taking it up very, very well.

If you then move to Xoom, which is our scooter, which has industry-first and segment-first features like the corner-bending lights as well as wider, bigger tyres and it has the fastest acceleration. That's something that we've been really surprised by the demand for it. We have ramped up our supplies. We are on to a better level now. We've added market share already in the 110cc segment. And as we improve our supplies, which have already happened, we will see a dramatic improvement in that segment as well.

If you then look at flanking Splendor, we are working on something for a launch within this quarter and a brand which is really one which is most loved one of the highest selling the Passion Plus is something that we will see a lot of excitement around soon. And I'm sure everyone would get excited by the volumes that, that will get in.

And then like Niranjan said, we have a pipeline, a very, very exciting pipeline. We will have more news to share with you as we go along. But literally, FY24 is going to be a great year.

- Amyr Pirani:** Great. We look forward to it, and I'll come back in the queue. Thank you.
- Moderator:** The next question is from the line of Chandramouli Muthiah from Goldman Sachs. Please go ahead.
- Chandramouli Muthiah:** Congrats Niranjan on your additional responsibilities. My first question is on pricing. We have been disciplined in passing on price hikes to consumers over the past 18 months. As you build out your EV franchise starting FY24, is it possible that price hikes on the ICE two-wheelers could help cost upsize the higher proliferation of electric two-wheelers, which maybe take longer to attain profit breakeven? Any color here would be very helpful.
- Niranjan Gupta:** Hi Chandramouli, thanks a lot and look forward to meeting you soon. In terms of the pricing on cross subsidy for two-wheelers, firstly, you are right, the industry, we've been very disciplined, very judicious in terms of price increases, ensuring that we accelerate our savings program so that the entire burden doesn't get passed on to the customers.
- Moving forward, as far as commodities are concerned, we don't expect the escalations in the commodity like we have seen in the past, and that definitely provides some headroom, whether you call it further recovery in margins or whether you call it funds being available to kind of plow behind the growth engines, whether it is growth within ICE or EV. So I wouldn't say so much of from a cross subsidy point of view, but it definitely provide the environment, definitely provides some headroom of recovery and boosting the P&L moving forward.
- EV, as you rightly said, is going to be cash burn for a while. The important thing in EV, in our view for success is probably not to look at so much at what's happening on the cash burn. But to stay ahead of the market of the competition on the cost curve because players who can actually deliver the EV in the most cost-efficient manner are the ones who are likely to be winner faster and which is where our teams are working on that.
- And in fact, at this stage, let me just ask our Chief Procurement Officer, Ram Kuppuswamy, who is here with me to just say a couple of minutes on overall how we are focusing on the cost reduction journey on the EV part of a scheme of things. Ram?
- Ram Kuppuswamy:** Lovely to speak to all of you today. At Hero, we take cost reduction very, very seriously, and there is a rigorous program called LEAP and LEAD that we follow to drive this across the ecosystem. And the three aspects of it, which I'll highlight today, which drive the results that these programs deliver.
- The first is across the entire ecosystem from partner through the customer service centers, all the different stakeholders in this value chain contribute ideas, which are vetted and put through a funnel based process to ensure that we are looking at efficiencies at every step of the chain. The second aspect of this is no idea is too small. We look at every aspect of cost in this overall value chain, and we attack it to ensure that we are driving the right level of efficiency.
- And lastly, I think we also make a regular look at our competition. We look at similar products. We do teardowns to ensure that we are understanding what the market is doing, what the rest of the world is doing. And then we use that to inspire ourselves in terms of ideas that we should be

looking at a lot more closely. So that gives us a strong program that we are able to run continuously through and drive efficiencies back into the business.

Niranjan Gupta: Thanks, Ram. Back to you, Chandramouli.

Chandramouli Muthiah: Got it. Correct. That's helpful. My second question is on the rural consumer, which you have touched upon briefly earlier in the call as well. There seems to be some diverging commentary, consumer discretionary companies are talking about an emerging pickup in the rural consumer cohort, but some of your two-wheelers peers are saying it's not visible yet.

So just from your vantage point, what is the urban versus rural market footfall and then maybe dispatch momentum in your showrooms. Any color here would be very helpful. And lastly, if you could just share the spares revenue for the quarter and the export revenue for the full year.

Niranjan Gupta: All right. Ranjivjit, if you could comment on the rural urban quickly.

Ranjivjit Singh: Yes, sure. So we've seen this a little bit of a sinusoidal kind of a curve on rural urban. What I said earlier is that in March, we saw with all the festivals, the Pongal, Ugadi, Padwa, the demand really went up in rural. And it would be a mixed bag, I can understand for the industry because people at this time are careful with their money. They will go with brands that they trust. There are brands that have a customer service which is really deeply rooted, such as ours. We have the widest, the best dealership network that we do. And HF Deluxe, Splendor are also working very well.

The other thing which is there is due to inflation, there are some resistances and what we do to overcome that is the retail finance penetration, which has gone up dramatically already to about 59%. So there are steps that we have taken to make that very simple and easy for our customers to buy. And when it comes to the uptake in terms of marriages or festivals, we definitely see an upswing there.

So the underlying growth, it was not only in March. We also see that now in April and May, and the marriage season will continue in June with the effect of the harvesting, the rains, everything, we still think it's going to be a well-balanced growth that we will see.

Niranjan Gupta: Chandramouli, on the parts revenue of our PAM business that you talked about for the quarter, as I mentioned, we did INR 1,271 crores, which just in the previous quarter, Quarter 3, was around INR 1,250, year-on-year basis, if you look at it, was INR 1,151 crores for the Quarter 4 FY '22. And full year was INR 4,835 crores versus INR 3,934 crores, which is a growth of around 23%. As far as the global business revenues are concerned, we delivered INR 1,150 crores revenue for the fiscal year '23.

Chandramouli Muthiah: Got it. Thank you very much and all the best.

Moderator: Thank you. Next question is from Kapil Singh from Nomura. Please go ahead.

Kapil Singh: Can you share some details on how many new launches and refreshes we are planning this year? And also on early launch, should we expect that this year, we saw some very interesting exciting images in media. So anything you can share over there would be helpful.

Niranjan Gupta: So Kapil, in terms of the launches, while I will not specify the numbers, but a couple of comments I can make. One, every quarter, we will have a new product launch. The year will see maximum number of launches that we've ever seen in the history of our company. You can then add up the numbers and come closer to the numbers that we launch. As far as Harley is concerned, yes, the product we will launch in this fiscal itself, it will be soon. And you will see the time line and the plans coming out. So just watch this space.

Kapil Singh: Okay. Great. Great to hear that. On the cost side, could you give us an update on how much cost decrease or increase you saw this quarter? And what are you expecting going ahead? And also on the pricing front, what was there in March quarter and for the June quarter with OBD II norms, what has happened on pricing?

Niranjan Gupta: So Kapil, as far as cost is concerned, you've seen that our margins have recovered by 200 basis points year-on-year basis, of which around 70-80 basis points is coming to the leverages on the other expenses. And the rest is a combination of the commodity costs as well as LEAP savings. Moving forward, while I've always said that it's very difficult to forecast commodities. But overall, if you look at the scenario, it's unlikely that the inflation in the commodities will be of the orders that we have seen in the last 2-3 years. So that does provide headroom whether in terms of containing the price at the current level or actually deploying mild price hikes and are deploying back behind brand and marketing spend.

As far as price is concerned, overall, cumulatively, if you look at fiscal year '23, we took close to around INR 4,000 increase. And April 23, the increase that we took amounted to close to around INR 600 per vehicle basis.

Kapil Singh: Okay, sir. Thanks so much. I'll come back in the queue.

Moderator: The next question is from the line of Pramod Kumar from UBS. Please go ahead.

Pramod Kumar: Niranjan, congratulations. And I think another set of congratulations for the result as well. So my first question, Niranjan, is on the 125cc side because you did say that 4Q, you have seen some market share gains kind of coming back, but we are still a long way off from where we used to be in terms of the market share like closer to 50% a couple of years back.

So if you can help us understand on 125cc and then the scooter segment as to what the kind of numbers or targets which you would be happy with our kind of market share gains, which you'll be happy with. So it kind of gives us visibility on the runway for these brands we can come back. That will be the first question.

Niranjan Gupta: Thanks, Pramod. As far as 125 cc is concerned, absolutely right you are, that our path to recovery will not stop here. We need to get back to what the market shares were. And actually, we see that as an opportunity overlaying on where we are today, that that's the road map that we have

in the recovery. And you will see backed up by a lot of actions over the next couple of years to actually get back to the share that we were.

As far as scooter is concerned, as you know, scooter, there is an EV penetration also that's happening faster. And therefore, the way we are looking at the scooter is on a combined portfolio basis, which is not just the scooter in the ICE, so the scooter on EV as well because that's the best way to look at the scooter on EV.

Clearly, you've seen our plans, which we outlined that the initial 3-4 months are more of a setup and now more of a scale up, which is where we have said that we go to 100 cities plus leveraging our own distribution system. Let me now hand over to Ranjivjit to just talk a bit more about the 125cc, the actions that we have taken and how we are confident of recovering market share moving forward over the next 2 years back to our highest ever that was.

Ranjivjit Singh:

Yes. So Glamour Xtec is on an upward trend with the campaign that we have with Ram Charan and the consumers are really loving the Xtec features; the LED headlamp, the styling, all of that is working very, very well. We also have the Super Splendor Xtec, which has got off to a really great start.

We will have more action in this segment as we go along, and what we see is it's going to be broad-based across the nation, across the country that we will see the recovery is happening, and we are looking at building up the momentum as we go along month-on-month for the 125cc. So that's something I wanted to just put out there.

Niranjan Gupta:

Absolutely. And Pramod, let me also now call upon Ms. Reema Jain, who is our Chief Information and Digital Officer, to talk for a couple of minutes because you talked about 125cc. Not only that, but we have a lot of connected features that we are bringing in our product on our path to the entire digitization, not just the processes but of the products as well, which gives us the confidence to ensure that our recovery path on the market shares and refreshment of the products is stronger.

Over to you, Reema, to talk about how we are building all these connected things in the product processes and digitization.

Reema Jain:

So hello, everyone. Nice to talk to all of you. So as we're bringing a new set of bikes, most of them are coming with connected features. And what we mean by connected features is there is a new experiences, which we are creating for our users so that they can interact with the bike much more effectively. And they can really use the bike, they can use that as more of a smartphone on the wheels, and that's something which we are seeing that our customers are loving.

We are seeing the highest number of installed level for our app, which is our Hero app, and there is a great amount of overall active users on a daily basis on our app. So that's something which we are really seeing as a great in traction from the customer.

Niranjan Gupta:

Thanks, Reema. And what happens Pramod is that we continue to talk about products, products and products, but all these connected features that come on the products, whether it is on ICE or

of course, EV far more allows us in future to not just focus on getting revenues on the product, but actually monetization of all these services that you overlay on these, including the one app, especially given the huge customer base of 110 million that we have. I hope that answers your question, Pramod.

Pramod Kumar:

Yes, yes. And the second question, Niranjan is on your approach as a leader of the organization now. As to how do you see, when you look at the next 5 years for the organization, what are the things which are like the key priority for us, right? Because we've seen market share loss. We've seen margin erosion. We've seen some segments where Hero could have done much better as a franchise, right?

So given all that and the electrification, which is a parallel run, a pretty disruptive one, what are the priorities for you? Is it volumes or success in some segments? And how do you see margins in that context? Because EV ramp-up is definitely can't be accretive for the near term. So, how would you look at this from your vantage point on, Niranjan.

Niranjan Gupta:

Interesting question, Pramod. And as I said to Kapil as well that it does require a separate specific forum to outline so that we can share thoughts, exchange inputs and then you can get more view on our longer-term refreshed strategy as well, which is work in progress. Having said that, let me just again share a couple of more thoughts on this. You talked about margins. We have seen the margins are on the path to recovery. And we've been very sensible about deploying the price increases versus the margin recovery. In terms of ensuring that there is a top line, bottom line because eventually, it's about profitable growth.

It's not about one or the second, which is it will maybe be about volume or this one. I mean you've got to breathe, you've got to walk, you've got to work, you've got to sleep all of it. It's about how do you balance these factors in terms to ensure that we have profitable growth journey as you move forward.

Shares, yes, as you have said, there are citadels where we are strong, where we have maintained our strength. There were segments that we had lost shares some couple of years back. We have actually strongly defended those and that you have seen. There are opportunities. The way we see it is that where we are standing today, the big opportunities for us in the premium segment is a big opportunity for us in ensuring EV leadership.

Remember our scooter portfolio in the ICE segment, we have a market share of 7% to 8%. So any EV or electric penetration that happens is accretive to our overall market share. And you have seen the plans on the outline. On the geographical concentration, clearly, we have work to do on scaling up the global business.

And of course, as we have always said that we will not shy away from any kind of opportunities on the M&A front in order to increase our top line in line with the strategy. So that's a very, very brief outline. We will be obviously focusing on prioritization and choices and of course, accelerating and moving the wheels faster, so to say, as we move forward. For the time being, this is all I can say and more as we meet on different forums, Pramod.

Pramod Kumar:

Great. I wish you all the best, sir. Thank you.

- Moderator:** Thank you. Next question is from Arvind Sharma from Citi. Please go ahead.
- Arvind Sharma:** The first question would be on VIDA. We've seen price corrections. So is there any aspirational volumes that you have in mind? It could be breakeven, it could be or is the first milestone for VIDA? Could you comment on that, please?
- Niranjan Gupta:** Let me ask Swadesh to take that. Swadesh?
- Swadesh Srivastava:** Thanks for the question. Yes, as we announced already, the last few months have been a setup month for us, and we have done very well in the initial three cities. We are already live in eight more cities; Pune, Ahmedabad, Nagpur, Nasik, Hyderabad, Chennai, Calicut, and Kochi. And we will be going over 100 cities in this calendar year. And with that, you'll see fast expansion as we are going to utilize our distribution strength. And I won't be giving a prediction, but you'll see a very fast increase of our volumes as well across these cities.
- Arvind Sharma:** If you could just share the current production capacity that you have for the VIDA, if you could possibly share about that?
- Swadesh Srivastava:** So our capacity is quite fungible actually on the vehicle side, and we have enough and more capacity to flex as the demand shifts up. And we have done a similar exercise on our battery capacity as well.
- Niranjan Gupta:** Good thing in that, which we have outlined earlier as well, that we've got plants, I mean EV is getting manufactured in our Tirupati plant. And therefore, you have the infrastructure, you have the utilities, you have everything. You have the suppliers. And therefore, in terms of the capacity ramp-up, it can always happen in line with the demand.
- We don't have to buy a new land. We don't have to actually buy new utilities, it will not be a constraint as we grow. It's more about our strategy to move. And in that, we have pivoted already as far as distribution is concerned, which you can see very clearly that our focus on leveraging our current distribution, which is to the nooks and corners of the country, places us in a strong advantages position.
- Arvind Sharma:** Sure. Second question would be on the ICE motorcycle portfolio. I understand that a lot of focus on the 125cc. I just wanted to gather your thoughts on the even higher, the Xtreme and the XPulse brand. Are there any new products or new variants coming there? Because there was a big growth and over the past few quarters been slightly on the more sluggish part. So is there any new product enhancement that's happening there? Or any other focus on that? I'm talking about that 150cc and above category?
- Niranjan Gupta:** Yes, absolutely, Arvind. As we have outlined that we would be covering the premium segment across the CC or the engine capacity as well as across the product segment within premium, which is a 150cc to around 450cc that you are talking about. I did talk about some of the new launches that we will do in the upcoming years, and you will see that a few of them will be in the premium segment, which are in the higher CC.

I won't give out any more details. But clearly, it's not the 125cc is the only focus. 125cc is about recovery of market shares. Premium is about building portfolio and which is where you will see the new launches coming up across the higher CCs, including the ones that we just talked about earlier in the call.

Ranjivjit, do you want to supplement something on this, our focus on the premium and how we are addressing that in the coming year?

Ranjivjit Singh:

Sure. So firstly, XPulse is in the off-roading adventure segment is already the leader, and it's doing very well. It's become a favorite not only in niche and pockets but now the popularity is going across the country. And as we bring in more and more products to represent the aspirations of the premium consumer, I believe that's how we're going to really build up our position in that space. So overall, I think we're going to be well positioned in FY24, and there's a lot of excitement that you're going to see in this space.

Arvind Sharma:

Thanks so much for taking questions.

Moderator:

The next question is from Rakesh Kumar from BNP Paribas. Please go ahead.

Kumar Rakesh:

Hi, good afternoon. First of all, congratulations Niranjan on your promotion. I would highly appreciate you hear your medium-term plans on a separate platform. We already see change in EV ramp-up plans, looking forward to hearing more of such moves.

My first question was on the demand side. For the last 2 years, unfortunately, we have gone into festival season with a lot of optimism around demand. And post-festival season demand typically hasn't stood up to those expectations and has softened down. What are the drivers which we are seeing this time around that gives us hope that the demand hopefully will sustain at strong levels? Or there is still some level of uncertainty on demand sustaining?

Niranjan Gupta:

Thanks, Rakesh. And certainly, we will have a platform where we'll share more. And you've already seen a couple of things, which have come in the market, some of which you pointed out. On the demand side, you're right, the post festival probably wasn't as the expectation. Having said that, if you really look at some of the, let's look at it on a macro basis, the capex spending of the government of INR 7.5 lakh crores and then moving up to INR 10 lakh crores this year's a huge amount of money. Now by nature, the impact of the capex spending always comes with a lag. And therefore, that's a big factor, which we see, which will actually boost the demand moving forward.

The second factor is we're already seeing the spending in different sectors, so if you look at whether it's hospitality sector, whether you look at across the board, the consumer spending is going up. Of course, post COVID, there was an adjustment in the categories where customers will open up their wallet to certain categories, first and certain categories later. But again, the consumer confidence curve also, if you see, has been on the move.

We've seen the key indicators, whether it's a GST collection, whether it is the inflation, which is kind of fine. We have seen the Central Bank monetary policy, which is now broadly on a pause

mode. The forex has held stable. So a lot of headwinds, which other countries see, we are not seeing.

Now when you overlay these along with the underlying need of penetration in this two-wheeler category in India, that's very, very clearly an opportunity that we see will translate into demand sooner rather than later. We've already seen that demand translating in the mid and the premium segment.

If you look at in the premium segment, which is 150cc and above, the motorcycles have grown by 28% in fiscal year '23 compared to the overall 14% growth of the total motorcycle. So you can already see that one part of the India started growing and started spending and being more confident about it, it's only a matter of time when the other parts start participating in this category.

Ranjivjit, a little bit more color on the drivers of the demand that we see and why we are confident about rural demand coming down.

Ranjivjit Singh:

Yes. So like I said, the green shoots we've already witnessed for the full year, of course, 14% to 16% of the industry growth. Q4 was about 5% for the industry. We did better than that. And that's really was something that we are again seeing in April as well that we have had a pretty good balanced growth coming in relative to the market, relative to the industry.

When we look at May and June, the number of marriage dates that there are and that also then drives buying in this season. We see that opportunity going out. If you remember last year, during the festival season, we led the industry growth when it came to the festival demand, we grew by about 20%. So that was pretty good. And then we've had a good Q4 as well.

With this kind of a widespread sort of demand growth coming in with the macro and the other things that Niranjjan spoke about, we see no reason not to have a good sort of a balanced demand coming through for two-wheeler industry.

Kumar Rakesh:

Yes. My second question was about two quarters back, managing, we had discussed about how Hero's headcount has been divergent from the production that the company has been doing. And now I see you have announced the VRS scheme. Can you please share some detail around or how many employees you are expecting to participate in this scheme or how many employees are eligible to participate in the scheme?

I see that your headcount at least the permanent employees this fiscal year have been largely flattish Y-o-Y. So they would be around slightly above 9,000 and possibly another 19,000 on the temporary employees as well. So total headcount about 29,000. So what kind of reduction you would be looking at?

Niranjjan Gupta:

So Rakesh, a couple of things. One, of course, in the journey, we do believe that VRS is a process of ensuring that you refresh the talent, refresh the people. And of course, every 4 to 5 years, there's always needs in the organization. As far as the continuous process which is there.

The second thing is that the current VRS is focused, was focused on the staff, where the headcount overall average around out of the permanent, which we talked about 9,000, it's around 4,500, the staff cadre. So this is focused on the staff cadre, not on the worker cadre and which is what we are focused on. Quantification, we will give in the upcoming quarter results and not right away, but I can safely say that whatever overall, we would have expected as a churn, the scheme has resulted in that.

So sufficient to say that, and therefore, we continue to focus on not just the cost aspect of the manpower. It's about the entire capability. It's about the talent, it's about succession planning, it's about diversity and inclusion. So on the manpower front, cost is just one simple item. I mean, eventually, it's about the productivity. And productivity is not just cost as a percentage of revenue.

Currently it's about the composition of the manpower, the right org (organization) structure, the right people in the right places, capabilities that you have, the org (organization) structures that you have, the multiple things that go into that, and we are focused on all those drivers to ensure our people productivity at the highest level.

Kumar Rakesh: Thanks a lot in answering that. I'll fall back.

Moderator: The next question is from the line of Nitij Mangal from Jefferies. Please go ahead.

Nitij Mangal: Okay. Firstly, congratulations to you, Niranjan, my best wishes. I would like to hear your thoughts on the competitive intensity in two-wheelers. On one side, we see companies supporting the highest ever profitability per vehicle, but then on the other hand instances of companies bringing down their brands over CC categories, like the in launch in 100cc category by a competition. How do you see this evolving and especially on the 100cc category side? And also, do you think there is a risk of a price discipline breaking at some stage if this continues.

Niranjan Gupta: Thanks, Nitij. Looking forward to more discussions. As far as price discipline, profitability like you rightly highlighted, that's been pretty good. We actually delivered, if I am right, the highest EBITDA per vehicle in this quarter, probably I should have highlighted in my opening comments, but thanks for picking that up.

In terms of the competitive intensity, I would say, look, it's not like it's a departure or a new feature. I think wherever any player finds a space or an opportunity to improve or to grow as a growth driver. This will continue to happen. We have seen that in entry segment over the last 4-5 years, and I'm not going to explain, we all know that. And therefore, it plays out that every and it's fine. I think eventually, competition, what I see is extremely good for the customers.

It's also good for the industry because it challenges the industry to do more innovations to do better, to deliver more value to the customer. And eventually, it's about more, it's not about just taking the slice of the cake from each other. I think the focus of the industry has to be on expanding the size of the pie rather than picking cake from one another. And I think to that extent, the more competition, the more competitive intensity, drives innovation and more value.

Price discipline breaking down. I don't see that because more and more we have seen at least the last 6 years that I have been even enough instances that in the two-wheeler in this industry to win. You have to compete on the product and not on the price.

Nitij Mangal: Understood. And also, if I understand this, it also suggests you don't necessarily think you need to do anything specific in the 100cc category for this new product that has come in.

Niranjan Gupta: So this is, while we'll not lay out the plan, but these are always continuous actions that we take, where we look at mapping out what's happening on that space, competition space and how do we flank our products. So it's never about that you've got to take one product and say that on that product launch, how do we counter that? It's about our own strategy of actually segment-wise, that there's a customer need, which is there, how do we fulfill the customer needs better than anyone else can. And that focus will continue, and that's where we will continue.

But it's never a product against a product because it's not about one product getting launched and then we react to that, but it's about a continuous process of, as I said, to win in the segment. And Ranjivjit has already talked about the Passion Plus, which is one such thing again, it's been on the pipeline, so it's not a reaction or a response to any of the new launches. This is an example that we continue to look at all of these spaces, Nitij.

Nitij Mangal: Okay. Got it. Thank you very and all the best.

Moderator: The next question is from the line of Mumuksh Mandlesha from Anand Rathi. Please go ahead.

Mumuksh Mandlesha: May I say, congratulations on the new role. Sir, my question on the gross margin improvement which we saw this quarter. Can you talk about the factors driving that margin and quantify the impact of the price hike and the better mix. And also, sir, was there any impact of gain in this quarter, sir?

Niranjan Gupta: So Mumuksh, I'll probably comment more on the EBITDA margins like what I did earlier. And we see around close to 200 basis point improvement year-on-year basis, of which around 80 basis points, you can see the leverage coming from other expenses as a percentage of revenue. And of course, when you look at the rest of the part, there is a mix which is PAM is contributing. There's commodity cost savings, commodity cost reduction, which is there and there's LEAP savings as well, which is forming part of that.

So we are the combinations are of course, I'm sure off-line, if you connect with Umang, he'll be able to share more details. But on a high-level picture, there are the key drivers, which are there in the numbers. Sure, sir.

Mumuksh Mandlesha: And also, can you talk about some of the sales promotion or incentives plan for to grow the volume and Executive, Premiums, Scooter segments, how you plan to support those segments, sir?

Niranjan Gupta: So as far as that is concerned, look, we have our continuous programs on our marketing and sales side, which is based on the launches. And clearly, the new launches like every year are the focus that we'll get in terms of the go-to-market strategy and the spending. But we won't be able

to outline the details of the schemes. But rest assured that we will leave no stone unturned to back these launches to their success path.

Mumuksh Mandlesha: Thank you so much for the opportunity.

Moderator: Next question is from the line of Jyoti Singh from Arihant Capital. Please go ahead.

Jyoti Singh: So first question, mine was on VRS, which are already answered. And second question on the margin and revenue front. Sir, I just want your guidance going forward, what we are expecting?

Niranjan Gupta: Jyoti, thanks for the question. As you know, we do not provide any short-term guidance. Our longer-term guidance of being in the tramline of between 14% to 16% on the margin, that tramline still remains, and we've reiterated that tramline even when we got down to 11% margin, and you see it's getting recovered to get into that tramline once again. So that remains.

From a portfolio perspective, our portfolio moving forward, if you look at medium term, one shouldn't look at one quarter or two quarters. Clearly, as we move forward on more premium, underlying the portfolio should be more margin accretive. And other than that, of course, the scale as it continues to play out in terms of volume growth and the savings that we do should provide the tailwinds to offset any of the headwinds that we present themselves in the future.

Jyoti Singh: Okay. And sir, currently, how many days inventory we are maintaining?

Niranjan Gupta: We continue to maintain around 6 weeks of inventory of the future sales forecast that we have.

Jyoti Singh: Okay. And sir, on the VRS front, the one curiosity I have, because of the VRS initiative, did we gain any growth going forward on the revenue trend? Or is just the initiative?

Niranjan Gupta: So Jyoti, as I outlined earlier, that it's a part of the continuous process of refreshing talent. Of course, part of the outcomes of that is a reduction, an immediate reduction in the manpower, and therefore, the manpower cost that comes down. We will be quantifying that in the upcoming quarter in terms of the impact. But overall, if one has to look at the overall people side, refreshing the talent like what I talked about earlier in detail.

Jyoti Singh: Okay. Thanks a lot.

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

Arvind Sharma: It's on the industry guidance that you gave double-digit revenue, if I may just ask what is the breakup between your absolute volume expectation and the pricing? Because I believe there would be a fair bit of pricing as well. So is it possible to elaborate on that?

Niranjan Gupta: Arvind, look, let me just give an overall answer for that. We won't be able to quantify in terms of the numbers. We won't be able to give the numbers in terms of what is the underlying volume and underlying price that's built into this. But having said, it's always again a combination.

So one sees that how to balance that off, and that depends on several factors. It depends actually on how the commodity costs play out, how the competition scenario plays out. But our judgment

overall and then how the mix plays out. But overall, if you look at the real GDP growth forecast of 6% to 7%, which is what various analysts and economists have been talking about. And if you overlay an inflation of around country inflation of around even 5%, that means that the nominal GDP itself would grow in double digits, in fact, probably around 11% to 12% of the nominal GDP growth.

Given the pent-up that we have in the two-wheel category, as we have seen, there's no reason to believe that the two-wheeler revenue growth would not be upwards of 10%. So that's the overall high-level answer. Between the combination of volume and price, it's always a dynamic thing that plays out.

Moderator: The next question is from the line of Basudeb Banerjee from ICICI Securities. Please go ahead.

Basudeb Banerjee: Thanks for taking my question and congrats to Mr. Gupta. Sir, if I look at the business details now, where one is expecting inclusive growth beyond just the premium bike, but also rural inclusive growth. Exports bottoming out, margin drivers coming back in place, EV scaling up.

So amidst all these things where capex is under control. We can see that the valuations of Hero have been stagnating or, in fact, lower than where it was exactly 12 months back, whereas all the other two-wheelers who might also be suffering from rural two-wheeler weakness have moved up either through buybacks or whatever is possible. So looking at your balance sheet here, are you thinking of enhancing payout ratio further or doing buybacks like your peers in order to look at the valuation aspect down the line?

Niranjan Gupta: Thanks, Basudeb. Interesting question. So and good to hear from you, Basu. And we don't usually see you asking questions and would like to meet and maybe we can set-up that meeting. On the capital allocation, you've seen that our payout ratio has been one of the highest in the industry. And we've been very disciplined about the way we pay out on the dividend, which is, I think we've paid out between 60% to 70% of the profits in the last 4, 5 years. Clearly, we also keep an eye on the per share dividend. And overall, the dividend per share for this year is INR 100, including interim and final, which plays out around 70% of the profit.

Like you rightly said that we have a very disciplined capex model. We have the scale up that's happening on the EV, the growth drivers on various things. And yes, I mean, in terms of all of that, and we have negative working capital as well. So the more business that we do, it generates more cash.

So in terms of capital allocation, we continue to, you have seen in the past, you've also invested or deployed capital behind the right opportunities. For instance, we invested in Ather. We continue to participate in Ather, we hold close to around 35% shareholding, which is doing well. We invested in Zero motorcycles, which is from a future perspective, we've invested in the NBFC, which is Hero FinCorp, which is doing well.

So we continue to do this capital allocation, it's a continuous evaluation by the Board where the money is required. And of course, all the other options, like you mentioned, are always on the table, but they are part of the continuous evaluation. I would say that once we do the right things

and get the right results, the market cap would take care of itself. So really, I wouldn't talk more about market cap.

But yes, take your inputs and your suggestions very clearly. And as I said, rest assured, we continue to evaluate all the options of capital allocation in the interest of the shareholders and the long-term business.

Basudeb Banerjee: Simply, sir, to summarize like broader way, one of your key peers who suffered massively from export deterioration. In fact, it is 10% higher than the levels it was a year back. And you also suffered from exports but that is a very small part of your business. In fact, your domestic volume grew. And despite that, you are almost, what, 15% lower than the level.

So from that disparity aspect, valuations are like from a dividend yield perspective, people look at. So I just to look forward to some steps from the management to enhance valuation, what will be possible just beyond earnings and revenue and EBITDA?

Niranjan Gupta: Sure, Basudeb. We take your inputs. And accordingly, we will incorporate that and feed that back into our stakeholder relationship committee and our Board discussions. Thank you.

Basudeb Banerjee: Thanks.

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

Kapil Singh: Sir, just one aspect, if you could cover on exports as well. What really is happening there? And more from Hero's aspect because we have a lot of ground available to cover even if the market conditions are tougher. So what are the plans for next 3, 4 years. And we've not seen much success in last 2 years. So just if you can give some color as to what really didn't work, what are you trying to change?

Niranjan Gupta: Kapil, thanks for the question. Look, I'll just address this again from an opportunity point of view. And rightly also but evaluating based on performance on the numbers for the last 5 years, probably would not be the right thing to do because setting up businesses in each of these countries itself requires huge efforts. And as I always said, we are in now 40-plus countries.

Here is an opportunity. Overall industry, if you look at it, like you rightly said, 25% of the volumes come from global business. As far as we are concerned, probably we are more closer to around 5%. We got to scale it up to around 10% to 15% of our revenue in the medium term coming from global business.

We are putting actions in place, some of the actions which are there, which are put in place, will take time to actually fructify. But rest assured, we are focused on this part of the geographical diversification to get to our rightful share in our portfolio of revenue.

Kapil Singh: Okay. Thank you and wish you all the best.

Niranjan Gupta: Thanks Kapil.

Moderator: Thank you. Ladies and gentlemen, that would be our last question for today. I now hand the conference over to the management for their closing remarks. Thank you, and over to you.

Umang Khurana: Thank you, everyone. Thank you for coming in. It's been a pleasure. Happy to connect individually as well. Have a good day.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Axis Capital Limited, that concludes today's call. Thank you all for joining us, and you may now disconnect your lines.