"Hero MotoCorp Limited
Q1 FY2024 Earnings Conference Call"

August 11, 2023

Management :

Mr. Niranjan Gupta
Chief Executive Officer

Mr. Ranjivjit Singh
Chief Business Officer – India BU

Mr. Swadesh Srivastava
Chief Business Officer-
Emerging Mobility BU

And **Umang Khurana,** Head - Investor Relations & Risk

Analyst:
Mr. Mumuksh Mandlesha – Anand Rathi Share & Stock Brokers

Moderator: Ladies and gentlemen, good day and welcome to the Hero MotoCorp Limited Q1 FY2024 earnings conference call hosted by Anand Rathi Share & Stock Brokers. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, 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. Mumuksh Mandlesha from Anand Rathi Share and Stock Brokers. Thank you and over to you Sir!

Mumuksh Mandlesha: Thank you Aman. On behalf of Anand Rathi Share and Stock Brokers, I welcome you all to the Hero MotoCorp Q1 FY2024 conference call. I thank the management for giving us the opportunity to host this call. I would like to hand over the call to Mr. Umang Khurana, Head Investor Relations and Risk. He will introduce the management and take this call ahead. Over to you Umang.

Umang Khurana: Thank you Mumuksh, thank you Aman. Good morning and hello everyone to the Q1 FY2024 investor call of Hero MotoCorp. On the call with us today, we have our Chief Executive Officer, Niranjan Gupta, the Chief Business Officer of the India Business Unit, Ranjivjit Singh, Chief Business Officer Emerging Mobility Business Unit, Swadesh Srivastava. As usual we will begin with opening comments from Niranjan and then we will open it up for questions and answers. Over to you Niranjan.

Niranjan Gupta: Thanks Umang. Good morning, good afternoon, good evening depending on which part of the world you are joining from. I am sure all of you would have seen our results by now. We have declared a top line income of close to ₹9,000 Crores for Q1 with our overall EBITDA going up by 28% and our profit after tax up by 32% after the exceptional item of VRS which is ₹160 Crores. Our EBITDA margins reported 13.8%, and as we talked about in our press release, the underlying ICE business margins are now 14.5%. Effectively it means that we are back to Pre-COVID levels which were around 14%. Therefore, moving forward, having covered the margins back to Pre-COVID levels, our singular focus is going to be growth and market share on the back of lots of launches that we have done and the launches that are in the offing in the next few quarters. Our journey of premium, as you would have seen, has begun extremely well. Harley-Davidson X440, we have been overwhelmed with the response 25,000+ bookings. In fact, we have closed the online bookings and now the focus is on ensuring that each of our 25,000 customers who have booked actually become our brand ambassadors and they get an experience which is world class. We got to ramp up capacity and demand fulfilment as we move forward. As far as EV is concerned, again our ramp up into the number of cities is on track. We talked about 100 cities by December, glad to report that we have already crossed 36 cities as we speak and we will be covering 100 cities well before December end. And then of course we will be building the portfolio, which will be the next year, on our way to EV leadership which is our goal. Within our current portfolio on 125cc as well, we have been doing lots of action there with Super Splendor XTEC which has started doing well, and as we speak the Glamour 125cc revamp is going into the market. All of this augurs well for recovery on our core market share as well. Overall the focus on premium, the EV rollout and of course recovering the shares as well on track as we speak. As for the demand side for the industry is concerned, we know that the last couple of years, the government has been spending a lot of capital expenditure almost to the tune of ₹10 lakhs crores a year and capex has a time lag and time has come when this capex will translate into income demand and employment as you move forward and therefore that augurs well. We also know that the rate hike has peaked. RBI has paused the rate for the last two or three times and clearly that means that the cycle of increased inflation is going to pause and that again will mean more income in the hands of consumers to be able to spend. And the third factor of course is monsoon which so far has been pretty decent. All these factors combined, they augur well for a double digit growth as you move forward to the festive season. And of course, on the back of the launches as we talked about, that we have done and we are going to do, we are quite confident of increasing market share as we move forward. Just to repeat again, margins back to Pre-COVID levels now, the focus moving forward singularly will be on growth and market share. Thanks.

Umang Khurana: We will begin with the questions and answers now, please.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Kapil Singh from Nomura. Please go ahead.

Kapil Singh: Good morning sir. Can you hear me?

Niranjan Gupta: Yes, Kapil. Go ahead.

Kapil Singh: So first question is on Harley. We have seen very strong bookings clearly. Can you just talk about what is the expected supply and why the bookings have been stopped currently? Also, what will be the milestones that you are looking for based on which you will decide on working on further models in this lineup?

Niranjan Gupta: Kapil, so the booking stoppage is part of the plan, the whole marketing sales strategy around it and it's all part of that plan in terms of online booking having stopped for that. We will open the window very soon because we do want the first set of this 25,000 customers to experience the motorcycle, to experience the test ride, for them to become our brand ambassadors and of course we know that a lot of customers have been demanding for bookings to be reopened, we will soon reopen the bookings as well. As far as supplies are concerned, in fact on the launch itself, we had started ramping up our capacities looking at the response that we had received on the launch date itself and the teams are working on that because we are going to ensure that each of these customers, their demands are fulfilled. But we are very glad that now demand is chasing supplies and we want to ensure world class experience to each of our customers as we move forward, Kapil.

Kapil Singh: Okay sir, thanks. And anything on the milestones for deciding further models under Harley Hero partnership?

Niranjan Gupta: So Kapil, as you know that the model that we have launched and the segment that we have launched is one of the biggest segments in the premium, both from the revenue point of view as well as profit pool point of view. So we are focusing fully on this model as of now. But obviously there is a thinking in future to extend the portfolio and also to look at geographies, but those are discussions that we will have with our partner Harley-Davidson at an appropriate point in time.

Kapil Singh: Okay sir. The second question was on margins. Can you just talk about what will be the margin trajectory you expect from here because I believe we have taken some more price hikes but at the same time EV mix may also rise going ahead. So in light of both of these factors, how to think about margins from here on?

Niranjan Gupta: So Kapil, we stick to our guidance on the ICE margins that we talked about even long time back and we have always stuck to the tram line of 14% to 16% which we have been saying. Of course during the COVID period and with the cost inflation, the margins had got down to around 11.5% and we are happy that with all the efforts around, whether it is price, whether it is mix, premiumisation, the savings programme, of course helped also by the commodity tailwinds - the margins are back to Pre-COVID levels. So our tram line on that will continue which is 14 to 16% and we have just said, given that the margins have been repaired, the focus will be moving forward on growth and market share and obviously it allows us headroom to invest more behind EV as well.

Kapil Singh: Okay, but I mean, what I was trying to understand is that your EV volumes will also rise, right? So the losses that we are seeing as the volumes go up, the losses will come down, but the EV mix will rise. So, is there a breakeven level of EV volumes that we have, at which this drag will start to reduce?

Niranjan Gupta: Kapil broadly, while it is very difficult to predict, but broadly we had talked about that in the range of 100 basis points on the EV business, as a dent or the investment I would call it not a dent, which goes behind that. As volumes go up, of course there will be economies as well, in terms of the scale economies we will get, and then a cost reduction, there is localization happening, both the factors will come into play and therefore cash burn per unit actually is going to come down in the industry if you take two, three quarters away from now. So that is what industry is working on. So it is not going to be like proportionate to that the cash burn amounts and all that will go up.

Kapil Singh: Okay Sir. Thanks. I will come back in the queue.

Niranjan Gupta: Yes, Kapil. Thanks.

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

Gunjan Prithyani: Yes, hi. Thanks for taking my question. You know good to hear so much focus coming back on growth. I just needed a little bit clarification and your thoughts on a number that you have put in annual report where you call out 6.5 million units production for FY24. You know what will, you mean, how are we looking at this 20%+ growth. If you can share your thoughts, what comes from

Premium, what are we doing to sort of rebound the entry segment which will be depressed? So some colour on how should I read this 6.5 million number that is there in annual report?

Niranjan Gupta: So Gunjan, while I will not comment on the numbers part of it in terms of production, but what we are aiming is as we talked about, we are talking about a double digit revenue growth in the two wheeler industry and then we are looking at market share gain. I will ask Ranjivjit to talk about what are the actions that we have taken and are taking to ensure growth and market share across these segments. Ranjivjit over to you.

Ranjivjit Singh: Thank you for the question and let me just build on that in terms of the whole demand and then the projections that are coming in with the recent launches that we have done. For example, Xoom 110cc that we launched, it has already added up market share there in the scooter segment. We very recently now dispatched Destini Prime that is another beautiful product, bang on the key buying factors of the segment that is really at the bulk and the belly of the market and is getting a very good reception. So overall in scooters, across 110cc and 125cc, we are seeing very positive movements from volume perspective. If I then go to Super Splendor XTEC, we have launched that in March and we have been able to see increasing volumes in the 125cc motorcycle segment coming very, very well building up. We have just started dispatches of Glamour, the classic Glamour, and you know markets like AP, Telangana or West Bengal or Assam, north-east, these are the ones that are really looking forward to that classic style updated with all the latest features, with the digi-analogue speedometer and the whole styling, the comfort of the Glamour that is something that the market is really looking forward to. If I then go deeper into Passion Plus, that is another one which recently has helped to bring it in the top ten motorcycles in June and July. It was the fastest to cross 10,000 units within 15 days and is doing very well. It is very well received, particularly in the South and the West and now it is going across to the other zones and the regions as well. And as we launch our new premium product, we also see great momentum coming back whether it is Xtreme 160R 4V or the 200S that we have also recently launched and the upcoming launches which are Karizma and many others. So when you look at the whole pipeline, never before has Hero brought in so many products in within a year and so you are going to see a lot of action coming in this year and so the numbers that you are referring to, basically I think we are on a very positive sort of ramp up that we are seeing from a market perspective.

Gunjan Prithyani: Okay. And that is good to hear. The second question I had was on this the consol and the standalone difference. The losses seem to have gone up in this quarter, almost about ₹120 Crores or so. If you can give us some colour on what subsidiary losses these are and how should we think about it through the course of the year? Is this the trendline that we see, just going to be ₹100 - ₹120 Crores each quarter loss on the sub?

Niranjan Gupta: Gunjan, there is a one-off item there which is on Ather, which is one of our associate companies which had to take a hit because of the regulatory issues - the charger refund that was around ₹175 Crores in one quarter that they had to take, and obviously our share of that based on 35% comes to what it is. I think that is the one-off. So I think we should take that one-off out. Then the rest is -

Ather is stable and then FinCorp will continue to increase the profits and improve, therefore that is what is going to be the trajectory going forward. Yes.

Gunjan Prithyani: Okay. Just last question if I can pitch in on the Hero 2.0. Where are we on that in terms of the roll out plan? What is the sort of investment that the dealer has to do in terms of refreshing the look of the dealership and what is the acceptance from the dealer while rolling it out, just some thoughts around it and I will join back the queue.

Ranjivjit Singh: So Gunjan currently, firstly we shared the new VI, we did a couple of pilots, we tested out the consumer response and overall it is worked on many, many dimensions. The whole experience that it provides, the customer really feels a very elevated experience in that whole, not just buying, buying of course the conversions are much better, the premium portfolio becomes better, the scooter conversions are better, but coming to a Hero showroom, the kind of experience that the customer gets from that kind of an experience is really good and so we have been able to roll out the pilots to around 38 which are live as of today across the country and we have a very strong pipeline where the designs, the architectural design, the interiors, all of that have been worked out and in fact our dealers are very, very keen and enthusiastic to get many, many more up and ready and running by the festival season. So we have got a very strong pipeline, I would say between 200 to 300 dealers, depending on the way the rains and everything goes on, but we have a really good pipeline and that augurs well for the entire portfolio that we are bringing in. The platform that we are creating for experience, customer experience, is really solid and I believe it's truly differentiated versus anything else that is out there in the market. So the brand trust just becomes even stronger with this entire experience.

Niranjan Gupta: Just to add Ranjivjit to your point and Gunjan, again just like we talked about the number of new launches that we are doing this year is unparalleled as far as our history is concerned, probably unparalleled in the industry as well. I do not recall any player launching so many products in such a short period of time, equally the Hero 2.0 which you picked up is of a scale which is also unparalleled. When we go back to in terms of the lifting the VI, absolutely the fastest ramp up in the industry number of stores and what is helping this is also because what we are saying is you get to store VIDA only if you are Hero 2.0, you have a chance to sell Harley only if you are Hero 2.0. So all of these things are also exciting the dealers and of course they are extremely excited and they are coming up much faster in terms of building up the stores.

Ranjivjit Singh: And everything that goes with a really premium experience of where’s planogram, less clutter - it is not only the hardware, its the software, its how we treat our customers, the training of our people - everything gets elevated.

Gunjan Prithyani: Thank you so much.

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

Jinesh Gandhi: Hi sir. Can you talk about the spare sales in the quarter and any reason why realisation should have dropped on Q-o-Q basis in this quarter by reasonable margin?

Niranjan Gupta: I could not get the question, really?

Jinesh Gandhi: So question is, one is, can you kindly talk about the spare sales in the quarter, what level it was and secondly why did realization...

Ranjivjit Singh: We got the question. We have been able to clock a net revenue of ₹1,210 Crores which is a growth of 14% and of course it contributes to about 14% of the revenue. What I just wanted to say is, this is a really a very good strategy and execution of the pivot that we have taken towards expansion of availability, because really what you need is in the aftermarket availability at arms length and we were able to get that. The second thing that we are doing is also adding new lines of business. So whether it is tyres or oil, there is a lot of new business that is coming in and our parts distributors and our super stockists are embracing this new way. It is a very CPG or FMCG kind of approach that we have of order fulfilment, demand pull, all of those kind of things that are helping us. As we do this, there is also parts, but there is also accessories and then there is merchandise and each of these three is getting an individual focus from the team here and we are able to pull that through in terms of the range and the way we display at our dealerships and how that gets integrated into the product planning itself. When we think about a premium product, we start thinking also about the accessory and the merchandise that goes with it. So all of this is really not only a topline growth, but also bottom line in terms of contributor. So we are quite happy with the way this is trending out.

Moderator: Jinesh, is that question answered.

Umang Khurana: We could move on. Maybe we can get Jinesh back later.

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

Amyn Pirani: Hi. Thanks for the opportunity. My question was on the volume trends. Now obviously on the wholesale side, your growth YTD has been below market. I think part of that has to do with inventory correction but even on the retail side, it has not been as good as what we would have hoped for. So can you help us understand what is happening on the retail side right now and given that you have been correcting inventory, wholesales have been lower than retails, where we would be currently on a retail inventory point of view?

Ranjivjit Singh: Yes, sure. So there is a bit of a back story that is important for me to just preamble here. You know Q4 we started and all of you will remember, the OBD-2 transition and that is where dispatch market share was higher than our retail shares and we were first off the blocks. We were able to position our OBD-2 products into the market as we were closing out on Q4. When it came to Q1, it was extremely important for us to do the FIFO to make sure that we transitioned well and we manage whatever the calculated risks there were in the market in terms of the transition of the two different things and I must say credit to the team that that has been managed very well. And therefore you see a higher retail market share, we managed to keep the 36% market share in terms of retail and that is on Vahan and lead that over the dispatch so that in Q1 we actually reduced inventory while the industry collectively added to inventory in Q1 and that is part of transition planning and depends who you know takes what kind of a strategy we decided to go with the market first, retail first strategy and that positions us well now as we build up towards the festival season. Now this festival season versus last year is also a little bit later, we know that. So 15th October is when the demand start picking up, it goes beyond Q2, and therefore as we build up the inventory, we will look at between Q2 and the beginning of Q3 to prepare for festival season. What also helps is the range of new products both at the mass level which is the high volume products. We talked about whether it is Passion or it is Glamour or a Super Splendor XTEC or the more premium portfolio that were coming up, whether it is the Xtreme or the Karizma or even in the scooter portfolio. So I believe we are very well positioned and we continue to work on that to make sure that we are aiming towards the retail off takes and then of course dispatch will naturally follow that. I hope that is helpful.

Amyn Pirani: That context is helpful. So would it be fair to say that the inventory levels are lower than where they were say 6 months back, like what is the kind of inventory levels that we are looking at right now, if you can help us quantify that number?

Ranjivjit Singh: Typically, and that is we have always given that in terms of how we look at in terms of the future. Well currently, we manage it between 6-7 weeks that's range that we are at. We are at 6 weeks currently and that is something that is very well positioned for the festival season as we start building it up.

Amyn Pirani: Okay. Thank you. Lastly one thing on the EV side, I mean based on the press release and even your commentary, you mentioned that ex of EV margins are already above 14%, which means that around 70 to 80 basis points of a drag from EV. So is there a part of it which is also because of the FAME subsidy removal or is it just a normal general investment on the EV side and where does this costs sit, if you can help us understand, like is it because the other expenses have gone up earlier are come down now. So if you can help us understand where are you, where this cost related to EV sit?

Niranjan Gupta: It is more on the gross margin side because we did not have a past sale, so we did not have any one-off like the other players on the subsidy withdrawal. But of course the subsidiary withdrawal has impact on the unit gross margin which is overall underlying, some price increase and some margin hit which is there. As we have guided already that around 100 bps is the investment that goes into the combination of all the cash burn that happens. Let me ask Swadesh to pitch in and talk a little more about this and also in general about the plans for EV as well.

Swadesh Srivastava: Yes, so thanks for the question. As Niranjan said, we are obviously investing heavily on building the infrastructure for EV. When it comes to subsidy, we are also preparing ourselves to be profitable without the scenario of subsidy. Obviously subsidy has been helpful to the industry, but as a business we need to make sure that we are geared for that and we have products which will be coming up in the near future where we will be more geared even without the subsidy. Having said that, obviously everybody has gotten a bit of a hit because of this. Thankfully for us it was much lower, but it is also let us all to accelerate our product portfolio which will be geared for subsidy free environment.

Amyn Pirani: Okay. That context is helpful. I will come back in queue.

Swadesh Srivastava: Thank you.

Moderator: Thank you. The next question is follow-up question from the line of Jinesh Gandhi from Motilal Oswal. Please go ahead Jinesh.

Jinesh Gandhi: So question was also on the gross margin reduction or RM cost increase which we have seen on Q-o-Q basis. Is that just the mix impact as economic segment has seen a good recovery on Q-o-Q basis or there is something else also? Are we seeing any cost inflations there?

Niranjan Gupta: Yes Jinesh, it is a combination of a bit of time lag on the cost and also mix, but overall if you look at it on the trend basis which is year-on-year basis in terms of our gross margin, that remains healthy. But you are right, it is the combination of those two which moves between quarter to quarter. Overall it is something which is in a position year on year basis at a reasonably steady level.

Jinesh Gandhi: Got it and the second question was for the EV side. So I mean given we entered with VIDA in December and now we are in scale up mode, so how do we see scale up of VIDA over FY24? What kind of volumes are we looking at and then subsequently when do we launch our next product because that I believe will be contingent upon how VIDA will also ramp up. So any thoughts on that?

Swadesh Srivastava: Yes, hi Jinesh I will take this up. So yes, as you heard we had announced that starting with the three cities from last year, we will be going to 100 cities this year. We are already at 36 cities and we will, well before the end of the calendar year, we will be reaching 100 cities and you all aware that we are coming out with 3 formats - we started with experience centres, now we are doing VIDA pods which are shop-in-shop and you will also see some of our dealers putting EV, specific dealerships over the course of this year. So we are really building that platform very strongly. We are also expanding our charging infrastructure, to have convenience to the customer and not have the range anxiety. I also want to share that we have also partnered with Ather, where we have made the investment and we have also partnered with them for a common connector and you will see interoperable charging network coming out very soon so that our customers will have much expanded charging network available. Coming to the product, we are focusing heavily on the product we have launched right now to get it to each and every corner of the country but we also are working on a strong portfolio for the entry and the mid segment as well and we will announce those launches in the due course of time.

Jinesh Gandhi: Got it, Got it. Thanks and all the best.

Swadesh Srivastava: Thank you.

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

Mumuksh Mandlesha: Congratulations on the good EBITDA margin performance sir. Sir, continuing on the VIDA, sir any market share target we have over next few years, any aspiration numbers we are looking at for this product sir and can you update on the PLI scheme benefits for the EV sir?

Swadesh Srivastava: So on the VIDA side, thanks for the question Mumuksh, we definitely put, as I also explained in the last question, we are really putting all the building blocks to get to the EV leadership within shortest amount of time and you can assume within few years, we want to take that top position across the segments. We also are taking EV as our starting point in lot of global markets as well. So we will see a lot of focus on whether it is through our GTM, whether it is through our product or whether it is through our digitally enabled services, we want to get to the leadership position very, very fast. I think your second question was around PLI incentive. So we are also working very heavily on making sure that we cater to all the criteria for the PLI and we will sort of announce when we are closer to those qualifications, but it is an important aspect for us and we are doing all which is required to make sure that we are ready to qualify for those requirements.

Niranjan Gupta: So Mumuksh, the focus right now is to go to 100 cities plus thereafter like we talked about fiscal year 2025 is about portfolio building and as we do all of these, clearly our aim obviously is to take leadership in this EV segment as we move forward.

Mumuksh Mandlesha: Thank you so much. Sir coming to Harley-Davidson, what are our plans to ramp up its standalone stores over the next one to two years, sir?

Niranjan Gupta: One, we will be servicing through definitely our current Harley-Davidson stores plus also select Hero stores. So going in itself, it will be starting with almost 100+ stores to begin with and then thereafter the gradual ramp up will happen based on that, but let me also at this point ask Ravi Avalur, who heads the Harley-Davidson business unit, to provide a little more colour on what we are doing as plans for this product moving forward, not just the stores but overall. Ravi.

Ravi Avalur: Well to first address your question regarding the stores, of course we have the Harley legacy stores in 26 locations across the country. That number is quite sufficient to provide a Harley-Davidson experience in India. Also as Niranjan said opening Hero Premia stores, Hero 2.0 Stores and perhaps even directly serving customers in certain markets, so it is a very exciting time ahead. Our current focus will remain on the X440 and providing an exponential experience and in rapidly expanding over the next few months, test rides to customers who book the motorcycle and then after that as a means to serve the market - that is an overview of what we will be doing.

Niranjan Gupta: And also remember that the way we have gone about this is that, it is not going to be a push based model, it is going to be a pull based model. So you do not need to have the product in advance to create the demand. So the demand is actually going to chase the supplies and then serving and fulfilling the supplies will be through various modes that happen. So, it is the change in the order in which we used to operate our two wheelers so far.

Mumuksh Mandlesha: Thank you so much everyone.

Moderator: Thank you. The next question is from the line of Raghunandhan from Nuvama Institutional Equities. Please go ahead.

Raghunandhan NL: Congratulations sir on strong margin performance and Harley bookings. My first question on the objective of growth and market share gain in premium segment - Harley, Karizma, Xtreme 125 and other products within the next 18 months - should strengthen position, can you indicate any volume potential that you are targeting? I mean 125cc model itself has a potential of 30,000+ units per month and Harley can have a 5,000+ units kind of monthly potential assuming supply follows the strong demand?

Niranjan Gupta: So I will leave the volume estimates and calculations and modelling to you, so we will not be giving any guidance on the volume. But again reiterating what Ranjivjit talked about, that the 125cc clearly, Glamour which we have done just going in, Super Splendor XTEC which has been received well, are going to be big volume drivers. Harley-Davidson X440 is in a segment which is really big and our bookings indicate that really this can become a very big model for us moving forward with getting so many booking in one month itself. And then we have follow on launches, like you talked about, Karizma which is coming back which is an iconic brand coming back in a different avatar very soon and then of course Quarter 4 we will have on the same 440 platform, another cross badged product as well. So there is lots, lots that are coming our way, and coming to the market and clearly these are each one of them are volume - I would not say volume, let's call it revenue and profitability drivers, market share drivers, and more importantly all of these what they are doing, going to do is to build our strong credibility in the premium segment, which so far we have been known in the commuter segment, but clearly strong credibility building in the premium segment. Remember when we met on the Investors Day which happened couple of months back, we did talk about 'Changing Gears' and you can see it already happening and more and more you will see it happening. Of course numbers are something that will follow once we do the right thing, now we know that the revenue and the profitability and everything will follow.

Raghunandhan NL: Thank you sir. Wish you all the best. My second question is if you can share some thoughts on how you are seeing the urban versus rural demand in the recent month and what is the expectation for the festive season?

Ranjivjit Singh: Urban continues to be a strong driver and we see good momentum out there. As far as rural is concerned, I think there are some very good indications that we have got, already Niranjan has covered that - whether it is the capex that drives the income in the hands of the people, the rains that have been spread across the country and therefore how coming forward as we look to the festival season. We have seen some green shoots, as we see Super Splendor moving in, as we see Passion coming in, these are products that have a very good balance across the country. So I think overall, good monsoon, the election, the festival, all of these things are all pointing towards a good festival season that is coming up and we are preparing for that.

Raghunandhan NL: Thank you so much. Just a last question on the raw material cost side, any benefits of commodity deflation on precious metal which could accrue in the coming quarter and for Q1 on other expenses side, it has been on the lower side. So any specific reason or it is just seasonality?

Niranjan Gupta: On the other expense, just a seasonality and therefore, I think more importantly to look at a full year basis, what has been the trend, as our revenues go up this year, obviously there will be operating leverage that will come in. As far as the commodity is concerned now moving forward, we expect the commodity to have a stable operation. So I think from here on, unlikely that we will see big movements on either side on the commodities. Of course nobody can predict and as and when it happens obviously as we have shown in the past, we will be geared to take our dynamic action on all the fronts.

Raghunandhan NL: Thank you very much, Sir. That is all from my side.

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

Kumar Rakesh: Good afternoon. Thank you for taking my question. My first question was on understanding your commentary from the near term and medium term perspective. In the monthly release, you had talked about that there are some crop damages and that is something which is impacting the demand whereas you have also talked about with the earnings release that you expecting demand to recover and specially in the second-half you are expecting better demand. So what would translate from the near term weakness which we are seeing right now, to a better demand in the second half?

Niranjan Gupta: Two reasons that we talked about, one is the more underlying which has been progressively, if you spend 15 lakhs, 17 lakhs of capex over a two year period, obviously that is going to translate gradually into demand because capex takes the time lag and therefore there is a belief, so it is not about one month or two months, it is like an uptrend that should start happening on the back of the capital expenditure, the government expenditure that we are talking about. The second part is the more recent part which is as you have seen the progress of monsoon across the board, which is earlier when we saw that somewhere it was deficit, somewhere it was too much excess, now it seems to be evening out as we move forward and therefore that is more of a short term nature that we are talking about and therefore these are reasons to say that as we move forward as a build up to festive, then the demand in rural side also should start recovering.

Kumar Rakesh: Thanks for that. My second question was more of clarification. So if you can just give some sense in the VRS scheme, how many employees have subscribed for that across staff and worker cadre and there is a small investment you have done in Netherlands subsidiary, so what is that meant for?

Niranjan Gupta: So as far as VRS is concerned ₹160 Crores is the charge that you see in the P&L and broadly around 10% of our staff level opted for the voluntary retirement scheme. The small investment that you looking at subsidiary, it is an investment in Colombia.

Kumar Rakesh: Got it. Thanks a lot.

Moderator: Thank you. The next question is from the line of Chirag Shah from White Pine. Please go ahead.

Chirag Shah: Thanks for the opportunity sir. Sir a broader question on the demand side. If we look at over last 12 months or so, without going into a longer history because we know BS and emission norm transition etc. so even over last 12 months, while the industry is hopeful of demand recovery, somehow it is becoming elusive and getting postponed by quarter or two and which is a general industry comment rather than company specific comment. So what are the parameters that you are tracking closely internally to gain the confidence that from now on or second or third quarter, we should be back? Festive season, generally a seasonal every year it comes right, so that momentum will be sequential but I am now looking on a Y-o-Y basis.

Niranjan Gupta: So Chirag, again the way to look at it is you look at demand by segment and by cities and by states and by region, so it is not like overall as a country the demand has not be recovering. For instance, we know that the last year premium segment grew by almost 25%, 30% in terms of the overall growth, so that segment is registering growth. If you look at any of the models that are launched at a higher features and higher this thing it grows. You have seen the bookings indications that our booking numbers that have come for an X440 at that price and some of the other players also having launched in that price segment, so really speaking India is becoming obviously a story of many India's so there is a part of India which is recovered much faster from whatever it was and actually really growing very well. Of course there is a bottom of pyramid which is taking more time. There is only a question of time, it is not the entire sector is not recovering, it is a by part it already started recovering some part is strongly growing, some part has recovered and some part is yet to recover so that is how I would put and that gives a confidence and also there are underlying indication, economic indications are there of course which we all know, but you will have to be patient sometimes that you predict that this quarter, next quarter will happen may get shifted, but the underlying factors are there which can drive demand and can drive growth.

Chirag Shah: So on the commuter segment which has been sour point for the industry in general

Niranjan Gupta: Right.

Chirag Shah: If you can closely indicate the trigger point where do I watching up, which will really give the confidence and you will be ahead of time, building up the inventory. So how should one look at that because that has been a sour point for the industry I think?

Niranjan Gupta: Chirag very simple. Some of these things do take time. One has to rely on the underlying factors and underlying factors what drive and we all know the economic theory is that you need to do huge capital expenditure which then percolates down. Now how fast and how far that takes time. There has been inflationary pressures, the inflation is coming down, I am not just talking inflation in terms of two wheeler, I mean overall general inflation. Of course we do know some vegetable prices, but overall when we are saying the rate cycle peak, inflation coming down that is. Third indication is replacement demand is coming back as we see, in small measures, but it started coming back and the people who are postponing and therefore looking at holding on to their vehicles for longer period of time now, that is actually which is a replacement demand is coming back from what it used to be around, it had gone down almost to around 4, 5, 6% and the latest month, we see that almost 10% of the buying is coming from the replacement demand. So lot of these indicators, lead indicators which are there, that is going to come up and that gives the confidence that segment also should see growth coming back. I mean just to talk about it even 125cc, Ranjivjit, with of course some of the new launches and launches by players others, that segment started growing as well. So it is a question that, Ranjivjit you want to add anything on colour on the commuter segment and bottom.

Ranjivjit Singh: Yes I think broadly the question is on the industry and you are absolutely right there are different segments and they behave differently but again coming back to where we are as Niranjan talked about 125cc not only we talk about Super Splendor XTEC and Glamour revamp but also we are preparing for another one which is coming up soon. So we will continue to proliferate with very differentiated portfolio to drive market upwards and drive our market share upward as well so whether it is premium, which you have heard a lot about, it is also 125cc, scooters also you seen those and anywhere you are seeing the market share getting strengthened with Passion Plus for the commuter segment, so recently we also look at our brand scores and brand strength and I have to say that we are very pleased with the way the market continues to give confidence to our brands whether it is across the portfolio so it is really something that we are preparing well for this festival season seeing that the industry volumes. You are right over the last two to three years there was a bit of a lag in terms of the industry growth etc. Now we assume that turnaround coming and you seen how Q1 has happened. You have seen positive moments as we go along with good monsoons with inflation under control with people coming back whether it is for the occasions or marriages or festivals, there is far more economic activity and more participation in that economic activity that will drive our entire industry. I think overall it bears well for the two wheeler industry.

Umang Khurana: Chirag good to hear from you from the other side as well.

Chirag Shah: Yeah thanks. So just one comment on commodity side, if you have anything, so any benefits expected going ahead or how should one look at that side? If you give make a brief comment on that.

Niranjan Gupta: I think Chirag moving forward I would say that we do not expect, as we said, significant up or down on the commodity. So the way we are building our models is for commodity to stay stable and no more benefits to be coming through on a more stable regime. But yes if there is any benefit that come, so it will help us actually help again further invest behind growth, market share like we talked about.

Chirag Shah: Thank you and I will get back to the queue.

Niranjan Gupta: Thank you.

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

Pramod Kumar: Thank you for the opportunity and I just wanted to bridge the disconnect between what I hear from you guys on the call in terms of all the product launches what you had and the great response what you are getting, and open market share because the data suggest that start of the fiscal till now we lost some 400 bps market share and market share for all those trending below 27.5 so I am just trying to and I am talking about Y-o-Y market shares just like to like seasonality. I am just trying to understand what are we doing here despite all the launches, if we are continuing to see market share slip, what explains that because in the core segment we have not lost market share as you alluded to. Just help us understand this gap between we are seeing at your end and we are seeing on the retail database.

Niranjan Gupta: So Pramod I will answer. I remember a couple of years back we had the call and we were having a very good dispatch market share and you did pick up the Vahan and the retail market share which were bad at that point in time and I will revert back to your logic this time, which is a right logic to look the retail market share. So if you look at the retail market share, retail market share 36.6% for the quarter so there is no loss as far as the retail market share is concerned. In fact on a sequential basis, the retail market share up by 300 basis point so that is one number that we need to look at, the second is more fundamental is that when we are putting this launches, remember these launches doing well, is what we say is an indication that is coming from how well customers have received. Now no launch will translate into a full potential market share at the point of launch, so, therefore that we know, that it takes four to eight quarters to actually get to the fullness of the potential. Now that you know you got a Xoom which has been launched when Ranjivjit talks about, received very well in the pocket, the early customers fantastic feedback that means the potential for this to rise over the next eight quarters is big. Similarly, Passion which has come back in terms of the Passion Classic avatar which again a lot of customers picking up. They are all lead indicators. Then you have Glamour 125 cc revamp which is coming in the market, Harley Davidson X440. If you are to ask me this reflect in my market share, no, but will it reflect in our market share in the next eight quarters, answer is solidly yes because that is the indication. Similarly, Karizma will come, similarly that will come. So actually these launches Pramod, is very important that once you launch how customers are receiving it, what is the market feedback which is that and therefore this is something that will translate into market share over period of time. What is very important to the right thing, which are in the market and it will translate. Hope this answers your questions Pramod.

Pramod Kumar: Yes Niranjan that explains because you need to feed this brand and make the marketing investment.

Niranjan Gupta: Absolutely.

Pramod Kumar: I also have a second follow up. How should we look at the marketing budget because you are talking about never seen before kind of a launch pipeline right? So definitely would require enough marketing support so that you do not kind of, investment and not even marketing cost it is investment right behind the brand. So how should one look at this and the ambition to get back to growth because to begin with for the first four months, we are down 5% on retail and 5% on wholesale, so we got a lot to cover on in terms of ground, in terms of volumes, right. So how should one look at the balance between volume come back and marketing investment and the profitability?

Niranjan Gupta: Again Pramod as I talked about it, if you carefully again see what we are talking about is, there from the margin which had gone to 11.5% we are back to the Pre-COVID levels of 14%, 14%+. Remember we had this conversation as well. There are 12, 12.5% are you still going to maintain the 14%, 14.5% whether it will be possible at all and we have proven that, yes we can get to that level of margin on the tram line. I think that job done and this time we have been very categorical that moving forward, we know so many launches coming that now focus will be on growth and market share. Remember the portfolio is so big, that the investment allows us to reallocate and reprioritize, which is what we do and that is what we have explained earlier as well. Of course there were increase in the spend because there will be whatever benefit that we get out of our savings programme, out of this, incrementally moving forward will be ploughed back as far as our investments are concerned. And you are right to pickup, we do not call them a marketing cost actually, behind these new launches these are the investments. But none of these will be starved at all. We will do whatever it takes to ensure that all launches are backed completely and we have a strong P&L to back it and therefore given that the P&L is comfortable and we know how to navigate that and we have proven that time and again then obviously the comfortable position on the margin allows us to ensure higher level of investment while actually maintaining margin because that repaired already.

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

Arvind Sharma: Hello. Good afternoon sir and thank you for taking my question. While you did allude to the spare parts revenue being strong, if you could just throw more light on the overall pricing environment especially given the pure realisation when we talk, revenue by volume fallen, so what are the reasons for that ASP decline and you have alluded to it but just more of detail?

Niranjan Gupta: I do not think the ASP has declined. I mean if you really look at it year-on-year basis, our ASP are up, even sequentially our ASP are up and I would suggest that may be on offline basis Umang will be able to provide. It maybe that when you are looking at sequentially, then the per unit of the parts revenue that comes, that shows a little lower and therefore you may see a blended ASP being seen lower, but if you look at two wheeler ASP, that ASP has gone up. If you look at the part, as the part growth, it is about the part as a percentage of revenue, that of course quarter on quarter you got some seasonality goes up and down. But fundamentally each of them independently grows. But Umang will share more offline numbers to you so that it helps clarify the split on the three.

Arvind Sharma: Sure. Thank you so much. Just one more question on the EV part. You have already reached the target level in terms of ICE margins. I think you again talked about it, but what has been a learning from Ather? At what level do you see that VIDA, where the pricing or the cost part is, where do you think it starts becoming at least EV neutral. Not talking about the units per se but there may be this year or next year because either the ICE margins are very strong, so when can we see that the impact of VIDA is not that high 70, 80 bps, what is the timeline that one could see?

Niranjan Gupta: Look I will tell you in a bit broader way. First of all, each of us in the EV industry are learning from each other because it is a nascent industry. So you learn from each other's experience and therefore it is not just about Ather learning from us or us learning from Ather, I think each of us learn from what somebody is doing well, where somebody is not doing well and you start learning and building that part, I think that is about the industry per se. It is about focus. It is about putting the right focus at the right point in time. Right now this year, the focus is that go to 100 cities, the focus is on building portfolio which you will see next year and then thereafter obviously as you gain scale and there is a focus on cost reduction as well and therefore the unit cost and the margins will follow. So it is important to actually prioritize and focus on one thing at a time and this is the sequence in which we are prioritized. Swadesh, you want to add anything overall on this.

Swadesh Srivastava: No Niranjan, you clarified how we need to make sure that we do not start focusing on three four things at the same time. As you know, we came out with a very strong product which customers have loved, whether it is removable battery, whether it is a look and feel, whether it is the drivability, customers are really loving it. Right now our focus is how do we take this product to every corner of the country, which is where we come with the 100 cities. Very strong work is happening behind the scenes on reducing the cost, where we have strong work happening with our suppliers, with our R&D teams and bringing that cost down very strongly and with the product portfolio coming in the mid and entry segment and the costs coming down, you will see that we will move towards profitability very fast. So we need to make sure that we are laying the foundation very strongly, while behind the scenes we are working towards profitability.

Niranjan Gupta: But clearly, look, given our scale and that is the advantage I think as Hero we have, that we have a scale of portfolio, a portfolio that where the margins are now back to strong which is generating cash and then therefore you can invest behind portfolio which we are building whether it is EV or the premium segment that we are talking about and including of course the global business as well.

Arvind Sharma: Got it sir. Thank you so much for taking the question sir.

Moderator: Thank you. The next question is from the line of Pramod Amthe from Incred Capital. Please go ahead.

Pramod Amthe: Thanks for taking my question. So the first question with regard to the aggressive product launches you are planning considering the amount of effort which goes in the product development and planning, how are you planning the system gearing up so that the full justification is made for these products to reach the potential, especially at the dealer end to give a time gap and to give a proper attention to these products otherwise they usually go out of these things. Can you do some color on that?

Niranjan Gupta: Good question and it is not that the launches are coming, while to the market it seems like it is all coming now, but this has been in the preparation for the last three to four years because if you remember, any new model takes 3 to 4 years' time. So the marketing team, the sales team, have all structured and planned very well. In terms of making sure that each of these launches receive adequate resources, the attention to detail at the sales, at the marketing level, at the planning level, operation level, so all that is planned but your point is little valid given that the number of launches that we have, extremely important for us to make sure each of these launches receive the necessary support and the paraphernalia that is required. Ranjivjit, if you want to just add your bit of colour on this.

Ranjivjit Singh: I just want to say the whole organization comes together to bring these to market. So whether it is at our R&D side or the plant in operation, and just making sure that the products are really well received in the market, the sales and marketing guys, making sure that. For example, when Niranjan and I travelled across the country, we set the sales capability of being able to explain, because our customers know lot about not only our products but also other products, and so being able to bring that value proposition alive at the store, making sure our online journeys are well crafted and they are frictionless, building all this out with the new visual identity of the stores, bringing in the right kind and attitude of the dealers was so enthusiastic about the growth opportunities that this present. I believe this is the kind of preparation that you are alluding to is not a trivial thing, it is something that the whole organization supports and builds out together.

Pramod Amthe: So the second question is with regard to the prolonged government agency inquiries which are happening. As shareholders, do we need to know you have to make any provisions or impact for the taxes or any of those matter? Second, whatever policy corrective actions you plan to take so that such things do not repeat?

Niranjan Gupta: So as far as we are concerned, we have given the commentary in the accounts as well, that we do not see a need for making any provision and whatever the information that is required by various authorities, the company continues to provide and cooperate with the authorities on this matter.

Moderator: Ladies and gentlemen, that would be a last question for today. I now hand the conference over to Mr. Umang Khurana, Head Investor Relations and Risk for closing comments. Thank you and over to you.

Umang Khurana Thank you everyone. Thanks for coming in and we look forward to keeping engaged, lot of products coming, lot of launches coming and let us talk offline as well. Have a good rest of the day.

Niranjan Gupta: Good weekend.

Niranjan Gupta: Happy Independence Day everyone

Umang Khurana Happy Independence Day everyone

Moderator: Thank you. Ladies and gentlemen, on behalf of Anand Rathi Share & Stock Brokers, that concludes this conference. Thank you for joining us and you may now disconnect your lines.