"Hero MotoCorp Limited
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Note: In case of any error during the audio call, the transcript has been revised with the updated information for factual accuracy

Moderator: Ladies and gentlemen, welcome to the Q2 FY23 results conference call of Hero MotoCorp hosted by Emkay Global Financial Services. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask question at the end of today's presentation. 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 Raghunandhan from Emkay Global Financial Services. Thank you, and over to you.

Raghunandhan N. L.: Thank you. Good morning, everyone. On behalf of Emkay Global Financial Services, I welcome you all on the Q2 FY '23 earnings call of Hero MotoCorp. I would like to thank the management for giving us the opportunity to host this call.

Without further ado, I would like to hand the call to Mr. Umang Khurana, who is the Head of Investor Relations, to introduce the management. Over to you, Umang.

Umang Khurana: Thanks, Raghu. Thanks for having us. Hello, and welcome, everyone, to Hero MotoCorp's Q2 FY '23 post results investor call. Trust everyone had a happy and a good festive. With us on the call today, we have our CFO, Niranjan Gupta; our CGO, Ranjivjit Singh; and Head of EMBU, Swadesh Srivastava. As usual, we'll begin with opening comments from Niranjan. Over to you, Niranjan.

Niranjan Gupta: Thanks, Umang. Hi, Welcome, everyone, to Hero MotoCorp's Q2 FY'23 earnings conference call. You would have seen our results announced yesterday evening. We delivered quarter revenue of INR 9,075 crores and net profit of INR 716 crores. The results include one-off mark-to-market loss on account of Gogoro investment of INR 44 crores.

Our first half revenues grew by a solid 25% while profits grew by 15%. Continuing our focus on both top line as well as profitability, we improved our EBITDA margin sequentially from 11.2% to 11.4% and delivered our highest ever first half gross profit per vehicle at INR 17,140 per unit of vehicles sold.

We continue to drive portfolio premiumization, and launch of XTEC variants across all the key models have met with huge success. During our 32-day festive period, the XTEC variants comprised 20% of overall retail sales volumes, where our total retail sales, as you know, grew by 20% over last year. This builds a strong foundation for growth both in volumes and value moving forward.

We are building a strong pipeline of premium products as well and you'll be able to see exciting model launches in this segment every year. This will help us build market share in the premium segment and boost profitability over medium term. We've been focusing on growing our PAM business in the last few quarters, I'm glad to report that PAM business revenue for first half was at INR 2,300 crores, registering a growth of 45%. PAM business revenue now accounts for 13.7% of revenue, and we aim to increase it to 15%. Beyond the growth prospects in the parts, which is a traditional business, we aim to grow our accessories and merchandise, which have got huge opportunities over the next few quarters.

In order to address the affordability in the entry segment, as we all know, we have been continuously driving finance penetration, making mobility easier for the masses. Our finance penetration has now gone up to 60% plus. And again, this builds a strong underlying platfom to translate the desire and need of people into real demand.

We are excited about the EV opportunity, and we will be starting test rides soon. Deliveries will begin as planned and from initial three cities, we plan to get to 10-plus cities by March. As you have seen, we are establishing Vida as premium and aspirational brand with many segment first offerings. Beyond the immediate, we plan to cover both the mid and affordable segments as well, and our teams are working towards building a strong pipeline of products ecosystem and offering as we explained in our investor conference recently during our product launch in October.

Coming to overall macroeconomic factors, while there are headwinds linked to inflation, the consequent rate increases and impact on economic growth. However, we do believe that the inflation and rate cycle may be close to peak now. Return of growth in developed markets may take a while but India clearly is relatively much better placed with strong consumption base, favorable demographic profile and significant headroom for per capita consumption relative to other countries. The recent resurgence of spending across categories during the festive season is reflective of return of consumer confidence and augurs well for the industry growth moving forward.

On that note, let's open the floor for Q&A. Over to you, Umang.

Moderator: Thank you. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and one on their touchtone telephone. If you wish to remove yourself from question queue, you may press star and two. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Gunjan Prithyani from Bank of America. Please go ahead.

Gunjan Prithyani: My first question is on the industry demand outlook. Now clearly, I mean, we're talking about some green shoots during this festive. Could you give us some more color as to what it just the pent-up demand and a lot of aggressive schemes that you had around festive that help? Or you're seeing some decisive change in the growth outlook and you think from here on industry is back to growth. So some color around what you saw during the festive and how should we think about the growth? And along similar lines, if you can share the inventory levels for Hero as well?

Niranjan Gupta: Thanks, Gunjan. Let me hand over this to Ranjivjit, Can you just take this?

Ranjivjit Singh: Yes, sure. Hi, Gunjan, and hi, everyone, and wish you all had a very good Diwali. I'd like to just talk a little bit about festival and then move on to the demand and how we approached it, touching upon, therefore, how this entire result has come about. So festival was, as usual, the 32 days this time, of course, it came a little bit early from 26 September to 27th of October. We were close to the consumer trends, we were close to our dealers and our customers and understanding what is the sentiment, what's going on. And that's why we came up with this idea of India, let's celebrate, Phir Se, Dil Se, and created the Grand Indian Festival of Trust which is something that was very well appreciated because this is the time when consumers wanted to come out, and after two years of COVID, this was the pent-up demand, of course, like you mentioned, would come out.

So in that, it is also very important to understand what the trends and the underlying trends are. And there was a clearer sense towards premiumization. And this is what we were working on, the premium portfolio, getting that out into our dealerships, making sure, like Niranjan said, the XTEC range, that we prioritize that because this is also the range that uses the chips which have been in short supply.

And I must commend our supply chain team for having managed to bring in those supplies well and prepared for the festival during Q2. So whether it's a Destini or Passion or Glamour or Splendor, all of them, we prioritize in terms of preparing for the modern mix because that is the key. That is critical that we are very much in tune with where the consumer is and where the consumer demand is.

It also, therefore, was incumbent on us to prepare for the entire ecosystem. The ecosystem had come out of two years of COVID. And so would we peak up to the level that we were anticipating? That required a lot of engagement with our ecosystem at the dealerships. And also very importantly, in the rural networks. The secondary networks where you know that Hero has a very strong position.

And so getting that alignment with the ecosystem was something that we worked on. And so those are fundamentals. And then we prepared for the go-to-market, the go-to-market from a marketing campaign perspective or a retail finance, which really picked up also during this time. The exchange program that we put in and the customer offers and a lot of the work that we did was digital, including upper funnel as well as lead generation on this.

So, I must say, rural overall, in July and August was a little bit soft, but then was moving ahead at a slow speed. We saw a lot of pent-up demand. So addressing your question, that demand did come up during the first 10 days of Navratri very well and then came on the rains. The rains, which for the next 9-10 days were incessant and they were prolonged, and they were pretty much unprecedented, and our consumer base in the rural area did need to fall back and take care of their crops, take care of whatever else they needed to do. But in the last 6 days towards Dussehra and Diwali, they came out. And that was very promising that even the whole portfolio that we have was very, very well served.

As you can imagine, we came in with a 20% growth during the festival season. So what I really wanted to say, Gunjan, is our Q2 was all about preparing for the festival. And when you get the hockey stick effect at that time, that's really what works. And that's what we had predicted, and it was good that work happened and the peak. We were able to satisfy consumer needs for the festival season with the whole portfolio of our Hero products.

So that's very much there and then the last part of your question. The other side of the rains is it actually could be an upside going forward for the winter crop. In addition to which there are quite a few auspicious days that come up in November, December right up to April, May, etc etc.

So I think fundamentals and the underlying performance is pretty strong from what we see. And when I told you about 20%, it is end consumer retail. They're actually what consumers have bought. So it's not what the dealers have bought. And that gives you a good sense of the underlying performance. I hope I was able to answer your question.

Gunjan Prithyani: This is very helpful. The inventory levels, if you can share that and then I'll get on to my second question.

Niranjan Gupta: Gunjan, I'll take that one. So our inventories are at one of the lowest post-festive. As you know, we won't give a number, but we maintain, let's say, four to six weeks, so it is down to actually the lowest end, of that spectrum, Gunjan.

Gunjan Prithyani: My second question is a little bit more around your strategy. I mean you're clearly calling out more of premium, and entry has also been seeing a lot of slowdown. But 125cc segment is where you've done well in the past, and it's a segment which is now expanding, and we've seen a lot more competition from the rest of the players as well. So what is the thought process here in terms of product intervention? I understand Glamour and all you've tried to make some intervention, but it's not really worked. We are losing market share in that sub-segment. So maybe what's the broader strategy there, if I think from a next two to three year perspective?

Ranjivjit Singh: Sure. So the 125cc segment is a very interesting one. Of course, it's growth is going -- seeing growth from upgraders from the 100cc, 110cc as well as downgrades from the 150cc, 160cc segment, and we are well placed. Our Super Splendor, which we've now come up with a canvas, and we backed it up with a beautiful campaign has in the festival season, done very, very well in terms of the key markets that it operates in.

And when you look at Glamour XTEC, Glamour XTEC is something that initially in the earlier part of the year, we had some shortages. We were able to address that. And we have now introduced a new product, which is the metallic nexus blue.

And then we came in with a campaign with the megastar Ram Charan. And it's created a lot of excitement, not only in Andhra Pradesh and Telangana, also in West Bengal and in other markets where in Q2 itself, it had a very strong double-digit growth. So we're seeing good momentum in the 125cc, and you'll continue to see more innovations from us and more of the portfolio coming in the 125cc as we go along.

Moderator: Thank you. Ladies and gentlemen in order to ensure that management is able to cover questions from all the participants in the queue we request you to please limit your questions to two per participant. The next question is from the line of Kumar Rakesh from BNP Paribas. Please go ahead.

Kumar Rakesh: My first question was around the EV. So how has been the bookings so far in the first 20 days since we opened a booking for our Vida portfolio? And what's the value proposition our JV with Gogoro brings in, given that they would be targeting the market separately as well? So where do we stand on that front? That would be my first question.

Niranjan Gupta: Thanks, Kumar, for the question. Our plan on EV is to open the test rides very soon, and we will be starting deliveries as planned. As far as booking numbers are concerned, you will have to be patient for the sales to happen. And then as the sales numbers happen, then you will get the disclosure then.

In terms of the Gogoro part of it, what they have announced is an operational pilot and learning from the operational pilot will be helpful across the other entire ecosystem. And as far as the partnership and the thinking and the discussion on that is concerned, as you know, that's on swapping. And swapping is the flexibility that we have always said that we will build. And obviously, there are optionalities and flexibility that are coming along, and it will be across all the segments of B2B and B2C. Swadesh, would you like to add anything?

Swadesh Srivastava: No, I think you covered well, Niranjan. We are really gearing up for the test rides to start soon. And with that, obviously, getting into the sales and delivery, and we'll have those in front of you very soon. On the Gogoro piece, whatever helps creating the category and helping the EV category grow is always welcome. And there will be good pilots going on this front, and we are in discussions to close out the rest of the plan with Gogoro.

Kumar Rakesh: Quite helpful. My second question was around the Hero FinCorp business. So last quarter, we had invested about INR 7 billion in that business. And we had discussed Niranjan last quarter that we would be targeting bringing down the credit cost in the business closer to 5%-5.5% through this year. So where do we stand on that in the first half of September quarter, whatever you could share?

Niranjan Gupta: Yes. They're progressing well. Hero FinCorp and actually, their profits have gone up from a level of Q1 where the PAT was around INR 110 crores, they delivered INR 160 crores. They're actually profit before credit costs, they delivered the quarter one of the highest. Their GNPAs have come down to 6.5% in the quarter. And they are targeting the trajectory to move towards 5% over the next few quarters.

So I think they are progressing pretty well with AUM growth, which is close to double digits and given India's financing penetration and the debt to GDP ratios, the opportunity in NBFC segments are significant. And I think Hero FinCorp, we believe are on a platform, which augurs well for the takeoff from here on.

Moderator: Thank you. The next question is from the line of Chandramouli Muthiah from Goldman Sachs. Please go ahead.

Chandramouli Muthiah: My first question is on Hero's quarterly model mix in 2Q. Normally, we see HF Deluxe entry-level model volumes improve in the September quarter versus June. This time, it seems that there's been a QoQ decline, but a lot of that decline seems to have been covered by the Splendor and Passion volumes. So just trying to understand what is driving this model mix shift? Is there a conscious effort to promote a better Splendor and Passion mix? Or are there other on-ground demand factors at play?

Niranjan Gupta: Let me start, and then I'll ask Ranjivjit to add on. You're absolutely right. As far as model mix is concerned, it's been favorable in terms of portfolio in Q2 as well as in festive, where we have more of the, not only just the Splendor, but actually, if you look at the festive also, the XTEC, which actually comes at 5% to 7% premium to the core models. That has sold very well. In our overall festive as we talked about, that XTEC models comprise 20% of the festive retail. So Q2 also favorable mix and that has got reflected even in the average selling prices. Anyway, have been consciously moving towards premiumization as we have talked about. And therefore, there's a customer pool as well, wanting to upgrade and equally our push in terms of our efforts in the market through XTEC and through marketing, these variants drove premiumization. That's what's helping. Ranjivjit?

Ranjivjit Singh: Yes, absolutely. I mean the premiumization is a trend that we're seeing not only in 2-wheelers, we are seeing it across industries. And the good thing is that consumers are really appreciating the XTEC range, Glamour already above 60%-70%. Similarly, there are lots of other models that we have. Passion is doing extremely well with the XTEC range. There's a lot more demand for Splendor XTEC than what we can currently supply. Destini XTEC has been a big, big uptick as well in terms of growth.

So overall, I think that's what's been happening. But after the rains in the mid-part of the festival and towards the last part after the rains, we saw even HF Deluxe come back. But look, that's pretty normal. I would say that the big trend is towards premiumization, and we were able to gear up our portfolio and our model mix to meet that consumer demand.

Chandramouli Muthiah: My second question is on the post-festive demand trajectory. This year, from registration standpoint, we have seen a bit of festive month for the 2-wheeler industry compared to the past four years. But wholesale from most 2-wheeler OEMs in October have not necessarily followed through with that kind of momentum. So just trying to check what is holding dealers back from accepting more stock from the 2-wheeler OEMs in general?

Niranjan Gupta: Let me just begin and then I'll also request Ranjivjit also to build up on that. The most fundamental thing and good thing is about the festive retail because once the retail happens on the retail with a 15% to 20% growth, of course, we grew by 20%, augurs extremely well and we saw that inventory levels are down to one of the lowest ever post festive. So obviously, that builds a base for the wholesale moving forward.

And on the post-festive retail demand because that's what will drive the wholesale given that the inventory levels are anyway at the lowest and that also provides that headroom. Ranjivjit already covered about the optimistic prospects, of the demand moving forward on the first one. But Ranjivjit, do you want to build a little bit more on the demand prospects moving forward?

Ranjivjit Singh: Yes. I'll just build on also when you look at October, last year, festival was in November. So obviously, there was still a stocking up, in fact, inventory levels that dealers were going for. Here, the, with 24th-25th being Diwali around that time, and then you have a few, you have a week of non-festive in a true sense not entirely comparable. But as you go forward, like I said, it's a more optimistic kind of a view that we have right now with the rains, with the rural sentiment, which has been demonstrated during the festival that we saw and the upcoming marriage dates that we are seeing, whether it's in February or in March. I mean it's definitely looking more optimistic for us.

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

Jinesh Gandhi: My question pertains to, first off, if you can share some data points with respect to spares revenue and operating other income for the quarter?

Niranjan Gupta: Yes, Jinesh, we can do that. As far as the parts business revenue for the quarter is concerned is INR 1,244 crores. Quarter 1 was INR 1,061 crores, and corresponding quarter last year was INR 1,141 crores. And the other operating income for the same period is INR 231 crores, INR 181 crore and INR 309 crores.

Jinesh Gandhi: Secondly, with respect to retail during festive, how retail compared to Pre-COVID, how much below FY19 levels and what were absolute details we are sharing in the past ?

Niranjan Gupta: Yes, Ranjivjit?

Ranjivjit Singh: Sorry, the voice is a little muffled.

Jinesh Gandhi: My question is how were retails as compared to pre-COVID levels? And what were the absolute level of retails during 32-days festive?

Ranjivjit Singh: Okay. So like I mentioned, we are 20% higher than last year. So that should give you a good sense of that. As far as the pre-COVID, we're not, we are still a distance away from that in terms of maybe 2018, 2019, but not that much of a distance. So I would say the rains had its impact. There was definitely pent-up demand. There was latent demand, but there was the reality. I've been visiting the markets, the dealerships and people who are more busy trying to protect the crop from the unseasonal rainfall. And I would say that the underlying factors are pretty strong there. So retail, absolutes are good. I think overall the economy for that segment, which we are catering to, I think, will be positive.

Niranjan Gupta: Jinesh, just to build on what Ranjivjit has said, if you look at pre-COVID you can broadly talk about 95% of the pre-COVID level, during this festive-to-festive, which I think augurs extremely well given in a discretionary category, the bounce back that has happened through consumer confidence and the buildup that we are seeing.

Jinesh Gandhi: So we are just about 5% short of Pre-COVID, that's a very, very good outcome. And as a continuation of that, were you seeing any different signs during festive between rural versus urban and markets where monsoons were weak, how did it go in those markets?

Ranjivjit Singh: Yes, it started off again, a little bit more positive for urban. Like I said in the beginning, rural was recovering but at a slower pace and then the second part of it, when the rains came, of course, that would have and did effect overall. But in -- towards Dussehra, Diwali phase, rural bounced back and bounce back really well. So I think when people were able to put their worries aside and when they had collected the cash from the mandis, everything was in place, they came and did what they really wanted to do which was to come and buy their favorite two-wheeler. So I think that part happened. So rural came back. Urban was anyway performing better. And like Niranjan said, we were very close to our Pre-COVID days.

Overall, I think across zones, it was fine except for maybe in Andhra Pradesh, Telangana, which is undergoing some kind of industry overall, which I'm sure all of you have followed. But beyond that, I think a good performance across the board.

Jinesh Gandhi: Got it. And lastly, if you mention you can talk about how RM cost impacted margins in 2Q and our expectations for 3Q? That's my last question. Thank you.

Niranjan Gupta: So as far as RM cost is concerned, you would have seen, Jinesh, that the cost in the quarter has come down, whether you look at the previous quarter or you look at the corresponding quarter of the last year. In terms of moving forward, look, metals, we have seen are cooling off. So therefore, some benefit of that is likely to flow in.

Having said that, there is a bit of headwind arising out of the currency depreciation, which we have seen in the recent. So I think we continue to navigate this space like we have done in the past through a mix of pricing, through a mix of savings initiatives. So we need to continue to navigate this space.

Jinesh Gandhi: So we saw some savings on commodities in Q2, right?

Niranjan Gupta: Yes, as such commodities, you can see the benefit in the material cost actually getting reflected in Q2.

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

Kapil Singh: Just continuing on the previous question. Is it possible to quantify how much commodity benefit you got for the quarter because we would have a benefit of positive mix also?

Niranjan Gupta: Largely you can say that if you compare with the preceding quarter because sometimes year-on-year comparisons in these cases do not make that much of sense. But if you look at our material costs have come down from 72.8% to 72% of the overall revenue. So roughly, you can say around 30 to 40 basis points of that would be on account of the commodity cost, while the rest would be the mix impact.

Kapil Singh: That's quite helpful. And going ahead, do you expect a larger benefit to come or bulk of the benefit to come in third quarter, is that the right way to think about it?

Niranjan Gupta: Kapil, I'm not going to forecast guidance on that because that leads to those guidance numbers. But I just reiterate that there is part of the commodity benefits that are yet to flow through, which will flow through in the coming quarters. The only headwind I would say is the currency and how that plays out over the quarter, over a longer period of time will determine finally is it a net benefit or a net actually cost-on.

Kapil Singh: Secondly, if you also just comment on even operating leverage overall because we have seen slightly higher other expenses on a quarter-on-quarter as well as on a year-on-year basis. So how will these costs evolve going ahead? And we have maintained a longer-term margin guidance of 14% to 16% by when you see yourself getting there?

Niranjan Gupta: All right. So Kapil, if you look at the quarters, other expenses have got impacted by; A. higher marketing expenses, which we did. As Ranjivjit talked about, XTec launch that we've been doing, so there have been campaigns running. So higher marketing expense in quarter 2 and there be some bit of spend phasing. So I think the best way to look at it is look at the H1 other expenses, which are at 10.1% and that would be a fair bit of range to actually look at in terms of building forward rather than the quarter, which was impacted by phasing as well.

In terms of moving forward, look, our long-range guidance still remains. Obviously, we've been navigating very successfully in terms of the entire commodity inflation that has happened, trying to balance it off as to how much we can pass on to the customer, how much to be offset by our savings programs and how much, therefore, we actually take it down in the margins.

So we've been balancing that all quite sensibly. And while doing a percentage, it's also important to recognize the rupees per vehicle, absolute delivery and which is where I said in the beginning, that percentage is one way to look at it. Of course, the guidance of the long range remains.

But in the meantime, we've delivered our highest ever gross profit per vehicle, if you look at the first half over the last few years. So, I think from an absolute perspective it augurs well, given that the volumes still on an overall basis are not at the Pre-COVID levels. Festive is at 95%, but on a full year basis the industry is well short. So as volumes build up, the unit per vehicle margins that one is delivering will then help in getting operating leverage significantly.

As far as the margin actually in the long term are concerned, let me address that as well, obviously as we talked about premiumization, which we are driving. You've seen our portfolio mix. We are working on launching premium models over the next few quarters and you will see every year that's coming, so that will actually improve the profit.

And obviously, as the rate cycle and inflation cycle peaks, then we'll have the dividends of the commodities softening as well. So I think there are things that augurs well. We're not too concerned about the percentage margins at this stage, given that at least on a per vehicle basis, we are able to deliver a pretty strong bottom line on even a per vehicle basis.

Moderator: The next question is from the line of Amyn Pirani from JP Morgan.

Amyn Pirani: Thanks for the opportunity. First just a book keeping question, any reason why the Gogoro-related mark-to-market loss is being driven directly through the other income instead of the other comprehensive income?

Niranjan Gupta: That would have been an option, but we did follow the accounting standard and actually, even in the last quarter, which is Q1, we took it through the other income itself. And therefore, we followed the consistent practice of actually following there. But there could have been a choice of actually moving through other comprehensive income as well as you are rightly saying.

Amyn Pirani: Because that just increases the volatility in your EPS. So I just thought I just ask. Secondly, I appreciate the point that on a per unit basis, in fact your EBITDA per vehicle is well above INR 7,000, which is close to your all-time peak. But going forward, do you think that on the other expense side, inflation could continue to remain high and is this because of marketing cost? Is it energy cost? If you could help us understand what kind of costs are going up because while commodities have come down, is there a risk of inflation in the other line items. I think that is what we would like to understand?

Niranjan Gupta: Honestly, I mean, no, we don't see inflation in the other items. As I explained, they are a bit of elevated in the quarter because of the marketing spend and the spend phasing. And if you look at the H1, which is broadly around 10.1% that we are looking at, we don't see a significantly higher inflation on that. So there's no energy inflation. Our employee cost broadly, it moves along with the industry.

And as we get the higher volumes as the industry grows and we also gain market share, the operating leverage also should kick in. So there's no fundamental concern around inflation in the other expenses outstripping this one. Having said that, just one thing I want to highlight, and then therefore we can pick that up moving forward as well.

As we are moving forward, obviously, as our EV is scaling up, the EMBU spends are going to be higher, but that's actually something which is building investment for the long term. And therefore, that's something. But underlying ICE business, if you're asking, there's no concern around inflation outstripping our top line growth on the other expenses.

Moderator: The next question is from the line of Chirag Shah from Nuvama. Please go ahead. Chirag Shah, your line has been unmuted, please proceed with your question.

Chirag Shah: Sir, I had two questions. So question one was, on the premium products, you have 150cc-plus product, can you just more elaborate in terms of how should we expect the product launch timelines and intervals? Why I'm asking this, we have launched the XPulse, which is doing extremely well, but it's the kind of a niche category?

Niranjan Gupta: Yes, Chirag. Thanks for asking the question. So, while we would not be in a position to indicate an exact timeline, and you're absolutely right, the XPulse has been received extremely well, but it's in the niche segment. You will see us launching premium models in the core segment pretty soon. I mean, if I were to say over the next two year's timeframe, you will see models which are in the volume segment and the profitable segment of the premium as well, including the platform that we are developing jointly with Harley.

Moderator: We move to the next question from the line of Arvind Sharma from Citigroup.

Arvind Sharma: Sir the ASP seems to be doing very well, partly driven by mix for sure and partly because of price hikes. At what point do you think that these price hikes would start impacting demand? Especially asking because market share has been volatile in the domestic bikes and competition is intense, so do you think at some point in time, one has to take a relook at the kind of price hikes, etc? Or maybe take some pricing action in order to boost volume? Is that something that is part of the plan?

Niranjan Gupta: Right. I think the best indication of price absorption in the market has been the festive retail and we have seen that festive retail is growing at 20% or you can say, 15%-20% for the overall industry and that means that all the price increases that have happened so far have been absorbed by the market.

And the way industry has been doing is in a very sensible way. It's not been taking very steep hikes. So it's been taking kind of a moderate hike. If you look at actually overall inflation in the economy at 7%, so versus the 7% inflation, if you look at the price hikes that have happened, probably they would be close to maybe 5% to 6%. So equal to or below the general CPI inflation that we are talking about.

Moving forward, we do believe that a moderate level of price increases will continue, but they are likely to be below the general inflation rate and therefore, that augers very well because that gets absorbed in the economy as well. And of course, in terms of pricing action for the volume, typically, in the industry, when the commodities cool off then, of course, that allows the industry to recover the margins in terms of percentages as well.

And then it allows also headroom for more investment on the product side, feature side and providing value to the consumers from that point of view rather than taking pricing down.

Arvind Sharma: Sir, just one last question. Your comments on the market share trends and anything that is there in the target or something which you have planned, especially in the domestic motorcycle industry?

Niranjan Gupta: Ranjivjit?

Ranjivjit Singh: Yes. So the market share trends, I think the biggest indicator that you will get is the festival growth that we got and I want to just draw your attention to the retail side of it because we've been focusing a lot on the end consumer demand and the end consumer retail. And there was a little bit of a blip in September, but we bounced back very strongly in October, and that's further got strengthened in November.

So we ended October in VAHAN at 34.6%. We went to 38.5% in November so far. So it's -- that's one way of looking at it although VAHAN has a lag of about 2 to 3 weeks, and it's not always very stable. But if you look at it over a long period of time, you do get a good trend line of where the trends are and so far, we seem to be doing pretty okay on that.

Niranjan Gupta: Let me build on what Ranjivjit has said in terms of the overall medium term, the way we look at direction and the drivers of the market share. So as you all know, we continue to be extremely strong in our entry segment. We continue to be very strong in our deluxe 100, 110cc segment with Splendor plus, actually outstripping all the models and that has got fortified more with the Xtec variant. 125cc where we actually lost market share, we will be on our way to recovery.

We have launched Xtec on Glamour as well and when we talked about the action on the 125cc. So that will be entry and deluxe 110cc will be about maintaining the strong position that we have. 125cc will be about recovering the lost market share through the actions that we had and premium will be building the market share to the portfolio that we are launching. So those will be the drivers of the market share moving forward over the medium term from a domestic ICE perspective.

Moderator: We lost the connection from Mr. Chirag Shah from Nuvama. We have him back in the queue.

Chirag Shah: I couldn't hear the answer for the first question. In case you have summarized and I'll skip and I'll repeat the first question. On the premium product, I was trying to understand your launch pipeline and the timelines that you are looking at because after XPulse, which did very well in its niche category, we have yet to capitalize on the brand build that we have done. So, if you can share some thoughts on that?

Niranjan Gupta: So while we had, Chirag, I'll still amplify a little bit more on that. So yes, XPulse has done well. It's not that we've not utilized that brand equity. I think we are expanding that. We are doing lots of actions on that at the dealer end, at our rallies etc, etc.

On the product pipeline, as you know, we had signed the agreement with Harley to jointly develop the platform, which will be right in the core most profitable segment of the premium and that is in advanced stages. So while we are unable to give a timeline, that's in advance stages of coming on ground.

Beyond that, we've been working also on across the CC right up to, we have talked about it earlier, Chirag, right, up to 400cc in the sports, adventure, racing segments as well. You don't see it because the work has started 2- 2.5 years back and typically, as you know, the launch take 3 to 4 years starting from the scratch. And therefore, you will see the model launches every year from here on moving forward.

Chirag Shah: The second question was on Ather. So you, what were the dilution that undertook in Ather? And I presume your equity stake is maintained in Ather, right?

Niranjan Gupta: Chirag, there's a minor dilution, which has happened. If you look at it on an undiluted basis, this is gone down by around 2%, close to 2% on the current holding, which was around 39% and it's come down to probably around 37%. Now that's because they've raised up – fundraised from GIC, which is INR 400 crores at a valuation of INR 6,000 crores.

Now this is almost an extension of the previous fund round and we had already put our capital in the month of May, if I remember right. So that's the minor dilution that happened. But strategically, our direction, our intent, our position on Ather doesn't change and Ather as a company, as a portfolio is doing very well.

Chirag Shah: And if I can squeeze in one last question sir? H2 volumes versus H1, given the festive has been reasonably strong after a lull. Can we expect a strong kind of a double-digit growth sequentially H2 over H1 at industry level and at Hero level?

Niranjan Gupta: Right. So Chirag, we're not be able to give a number guidance on our H2. I think overall, if you look at the industry, and again, coming back to industry, I think the fact that the festive retails are 95% of Pre-COVID. We know on a full year basis, the industry is far away from the pre-COVID, but at least the festive retail being there, that's a very encouraging sign.

On top of that, when we look at the even the crop cycle, where the crop harvesting is happening because of delayed rain now, we've looked at the other fundamental factors also the GST collections as we know are good, the crop realizations are good. Consumer confidence on spending is coming back. I think it all augurs well.

Now how fast, how quickly it translates into industry volumes moving forward, that could be a matter of a few months here and there. But I think we'll stay positive on the outlook moving forward on the back of a very strong festive performance by the industry.

Moderator: The next question is from the line of Nishit Jalan from Axis Capital.

Nishit Jalan: Thank you for the opportunity. Sir, I have two questions. Firstly, if I look at your sales volume of models like Passion and Glamour, good to see that we have seen some pickup in the last few months. But still, the volumes of these two models are significantly below the volumes which they used to do three, four years back. So just wanted to understand your thoughts as to what went wrong and according to you, what will be required from your side to go back to those models? Because Passion used to do 70,000-80,000 per month. And even Glamour used to be there at some point of time. But now we are significantly below those levels? That is the first question.

And second question is on, sir, our receivables have gone up significantly, we do have some seasonality, I think, in the September quarter. But if I look at the receivable days have gone up to almost 43-44 days of sales. So is it purely seasonal or have you made any changes to the credit period that you are giving to dealers because the inventory was higher, so you're giving higher credit period. I just wanted your thoughts on these two questions? Thank you so much.

Niranjan Gupta: So on the first question, let me request Ranjivjit to answer. Ranjivjit, over to you.

Ranjivjit Singh: So we've seen a good revival on Passion and Glamour. And I think the XTEC range, as we've talked about has been the primary driver. Consumers have really appreciated the first-in-segment features that we have, whether it's the navigation, the Bluetooth, there's LED headlamps and lot of premium features, and that's what drives this segment.

So rest assured that this is coming back. We've also invested, as you know and as I've told you on Glamour XTEC in terms of the celebrity Ram Charan as well as campaign and the new colors, etcetera, which come up very, very well. People are saying that they want that bike, which Ram Charan is riding. And they've got Passion also, which is now coming back in a big way.

So going forward, we see that these segments will continue to contribute and grow as we go along. The upcoming marriage seasons, we will see that, definitely will play a big role because these are the models that will be in demand. The retail finance has played a very big role now and that will continue to drive demand for these kind of figures. These are aspirational products and that is what will be driven. So we're very confident about the growth.

Niranjan Gupta: Then just a little bit on that. Specifically on Passion, while of course, we need to address and Ranjivjit talked about the actions, and we are confident of addressing it. But whatever we have lost on Passion, actually, we have gained on Splendor Plus. So we've been able to capture that within our own portfolio at actually higher margins. Having said that, that doesn't take away from the fact that we need to get Passion back to those volumes and the actions are in place.

On the receivables, it's purely seasonal. There is, of course, a bit of the price increases that have happened. But yes, in terms of number of days when you look at it, it's just seasonal. And in fact, as we stand today, we've already post festive, we've already had the collections bringing it down to the normal levels. There hasn't been any change in the underlying credit period.

Nishit Jalan: Okay. Sir, just one follow-up.

Ranjivjit Singh: Nishit, I'll just add that both Passion and Glamour in Q2 have really performed very well. So rest assured on that, they've been very strong double-digit growth, Passion and Glamour.

Nishit Jalan: Yes. Sir, just one follow-up on receivable days. Can you remind us what is the credit period that you give to dealers? And how much of it is free of interest? And then how much is basically chargeable on an interest basis?

Niranjan Gupta: It's 15 days free of interest.

Nishit Jalan: And then do you give a credit period with some interest also to the dealers?

Niranjan Gupta: Yes, after that interest is chargeable.

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

Hitesh Goel: Sir, I just wanted to get a sense more on the commodity cost side. So we look at steel, aluminum, precious metals, these things, right? And that have fallen quite a bit, right? But you have been talking about energy costs. We are looking at the oil price also. It's not changed. Actually, it's come down from first quarter levels. So where are we seeing this inflation? Is it due to vendor seeing cost increases that they're passing on in terms of overhead costs or also on the semi side?

And semi, I would believe would be mostly in the premium side and would be a very small proportion of revenues, right? So just can you give us more color on why we are not calling for a decent increase in margins in second half from the commodity side?

Niranjan Gupta: Yes. From the second half perspective, it's the currency, honestly. So as currency, you know the currency is depreciated down to INR 83 and currency impact across all the baskets because most of these commodities are denominated in terms of their pricing at spot parity pricing, through a dollar level. So that's what impacts. Steel, aluminum, etc, etc are low.

And as far as the semi is concerned, yes. So that kind of indicates basically the premium end part of it. So yes, I will actually put it down to second half outlook, which I talked about. It's down broadly to the currency. Yes. This could actually offset some benefits off the cost that we're getting to.

Moderator: Thank you. The next question is from the line of Jyoti Singh from Arihant Capital Markets Limited. Please go ahead.

Jyoti Singh: Sir, my question is on the rural side. What's your outlook going forward as you did mention that rural is doing better?

And another question is on EV front. If you can tell us or guide about the expectation of EV revenue contribution.

Niranjan Gupta: So for the first question, I'll request Ranjivjit to answer and I request Swadesh to answer the second one. Ranjivjit?

Ranjivjit Singh: Sure. So like I mentioned that rural recovered a little slower. But when it bounced back, it actually came in three points higher than even last year during the festival season. With the rains behind us, with a positive outlook, we think that things are more optimistic about rural demand coming back. I believe that will happen. The marriages in February, March, particularly will play a role in driving rural demand. So I believe your question is very fair in terms of the balance that we have in our portfolio, and I think rural will augur well.

Swadesh Srivastava: Yes. On the EV side, as you see, the EV market is actually almost tripling up from the last year to this year. And if you look at it from the segment within the EV from mass to mainstream to premium, if you look at the higher price point where we are playing, it takes about almost 32% of the market in the first half, and that's where we are well positioned. In the three cities which we have already launched and soon we'll start the test rides, that takes up about 26% of the premium market. So we are playing in a very significant portion of the EV market. And as we launch another set of cities, that will cater to another 20-odd-percent of the market, right?

So I think we're playing in a very significant segment of EV. We are playing in the top cities of the EVs. And as we had mentioned earlier during our launch, we are here to create the category and we are putting the right building blocks, whether it's the right product, charging infrastructure or the digital platform and our touch points, customer touch points. So we want to make sure that all this is set up, doing well and customer is taking it well. We are going towards having this foundation built very well in the coming months. And we know that from there on, we will be able to garner a leadership position. So I just wanted to give you the segment and the cities we're playing in, and we are very strongly building the foundation in the next few weeks.

Moderator: A reminder to the participants. Please limit your questions to two per participant. The next question is from the line of Kapil Singh from Nomura. Please go ahead.

Kapil Singh: Sir, my question has been answered. Thank you.

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

Jinesh Gandhi: First question is on the impact of RDE norms on 2-wheelers, how do you see that in terms of cost increases?

Niranjan Gupta: I didn't get your question because the line is a bit muffled, Jinesh, so I was not able to get your question.

Jinesh Gandhi: Yes. So any sense on what would be the cost increases because of RDE norms or BS VI Phase II norms of which is coming in from April 23?

Niranjan Gupta: Okay. You're talking about the OBD Phase I and Phase II right?

Jinesh Gandhi: Right.

Niranjan Gupta: So the impact is not significant. It's pretty marginal from a regulatory cost point of view.

Jinesh Gandhi: And secondly, with financing penetration going up to 60% plus, what is now our share of financing from HFCL?

Niranjan Gupta: HFCL continues to be hovering around 35%, plus or minus a few basis points depending on which period actually you take.

Jinesh Gandhi: So it's not -- it hasn't gone up materially with increase in penetration rates. That's great. And lastly, on the operating other income side, you've said this quarter was INR 231 crores, right? 1Q was about INR 109 Crores.

Niranjan Gupta: So other operating revenue, Q2 is INR 231 crores and Q1 was INR 181 crores.

Jinesh Gandhi: So Q1 was INR 181 crores.

Moderator: Due to time constraint, this was the last question for today. I now hand the conference over to the management for closing comments.

Umang Khurana: Well, that's it. Thank you so much. Thank you, everyone, for joining in. We look forward to keeping connected. If you have any follow-ups, please feel free to reach out to us. Thank you.

Niranjan Gupta: Thanks, everyone. Thanks for joining our call.

Swadesh Srivastava: Thank you, everyone.

Ranjivjit Singh: Thank you.

Moderator: Thank you. On behalf of Emkay Global Financial Services, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.