



“Hero MotoCorp Limited
Q4 & FY2021 Earning Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Hero MotoCorp Q4 FY2021 Earnings Conference Call, hosted by JM Financial Institutional Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I will now hand the conference over to Mr. Vivek Kumar from JM Financial. Thank you and over to you, Mr. Kumar!

Vivek Kumar: Thank you Neerav. Good afternoon, everyone. Thank you for joining in. We thank Hero MotoCorp’s Management for giving us the opportunity to host the call today. We have with us the senior management team from the company. I will now hand over the call to Umang Khurana, Head, Investor Relations and Business Support. Thank you, and over to you, Umang!

Umang Khurana: Thank you, Vivek. Thank you for hosting us. Good day everyone and trust everyone is keeping well and safe. We are delighted to have all of you on the call today for the Q4 and FY21 post results earnings call. We have with us today, Mr. Naveen Chauhan, our Head of Sales and After Sales, and Mr. Niranjan Gupta, our Chief Financial Officer. We will begin the call with Niranjan’s opening comments and then open the house for questions. Let us begin with Niranjan’s comments first.

Niranjan Gupta: Thank you, Umang. Hi, welcome everyone to Hero MotoCorp’s Q4 earnings call. Good morning, good afternoon and evening depending on which part of the globe you are joining from, or simply Namaskar to everyone, taking away the complication of morning, afternoon and evening. We hope and pray that you, your friends and families continue to stay safe and ensure that we come out of this crisis prevailing today in India and some parts of the world, as winners on the other side. There are no doubts and we are confident, that together we can, and we will. Coming to our Q4 results, which we declared yesterday, let me just talk about some of the key highlights. The first one of course, as you would have seen, is the market share gain, which is 140 basis points in terms of overall full year gain, and has come after many years for us as a substantial gain. It has been powered by scooters, which is again, a very delightful thing for us where we gained almost 270 basis points and we are back to around 10% market share. This is powered by our Pleasure Platinum and our 125cc win in some of the key markets. Of course, the road is long but we are very confident that we can take big strides now in the scooter space. Similarly, the other highlight in the market share is premium, which has moved close to 4%. Remember that we were hardly present in premium segment, and now on the back of Xpulse and Xtreme 160R, the market share has started moving up, and we are sure that as we build our portfolio, as already outlined as part of our strategy, the market shares in premium will keep moving up and will be a big growth driver for us moving forward in the medium term.

The third big highlight on the market share is the global business, which, as we said, we have restructured on focusing on few markets and as we have learned, we are putting the right products which are needed for the customers in those markets. You would have seen in

FY2021, we have grown at 8% versus industry decline of 6%. Of course it is on a smaller base, but if you look at Q4 run rate, it is closer to 3,00,000 annually, which is almost 40%-50% higher than our erstwhile run rates, which was closer to 2,00,000. We are sure and confident that global business will again prove to be a big growth driver for us in the next 3-5 years.

The fourth highlight on the topline is the parts business. As we have said earlier, the business is doing very well led by our micro marketing strategy and expansion of coverage on distribution part. This is the second successive quarter when we have crossed Rs.1,000 Crores and in fact it is now inching closer to 10% to 12% of revenue on a steady basis, and we are sure that this can be grown further. There are plans to this extent. With regard to the overall financials, of course, you would have seen that the margin in Q4, despite all the commodity headwinds and commodities witnessing a steep rise, the margins in Q4 are close to 14% which has been driven by a combination of the LEAP-II savings program, which has delivered almost 300 basis points in the quarter, and in the full year, more than 200 basis points. Of course, we have taken judicious price increases, and that has helped us deliver the margins that we are talking about. Overall, these financials that we have delivered in FY2021, are after factoring in all the support that we have been providing to dealers, vendors, employees and to the entire ecosystem, because this was a pandemic year and therefore we needed to be supportive of all the stakeholders, protecting payroll and everything else, not cutting corners but obviously saving, wherever we had an opportunity, and that is reflected in the results. Also, our focus on creating value while ensuring that all stakeholders are taken care of, and finally to cap it up, the cash flow which is very important. As they say, topline is vanity and profit is sanity but cash is reality, that is an old saying and you can see that the cash flow we have delivered is upwards of Rs.4,000 Crores in the year, which will augur well when creating a liquidity buffer. We declare an overall dividend of Rs.105 per share, which comprised of Rs.90 normal and Rs.15 special dividend, and that should be again something which should be delightful for our shareholders. So that is a brief summation of our Q4 highlights.

Let me now move to Q1. These are difficult and challenging times, the surge in COVID 2.0 was not anticipated or predicted by anyone. It is impacting life, and Q1 is not the quarter to count volumes or count money, but it is the quarter to help each other to save lives and to serve society. Profits and money will come later, but in this quarter our focus is fully and completely on that, and towards that, as you saw, we took proactive shutdowns of our factories to ensure that we can help with breaking the chain. There are multiple actions that we have taken in terms of whether it is medical facilities, vaccination drive or multiple CSR activities around oxygen cylinders, helping out ambulances, etc. All our teams, which are not only ours but along with dealers and vendors in these times of crisis, are doing their best, to help out not only the employees that are associated with us, but also the community that is around us. We do expect that with medical facilities getting ramped up in the country and the vaccination drive, all of us should be past this entire tsunami very soon. There are predictions of May-mid being the peak and therefore May-end subsiding down, and June could be a period of kind-of coming back to steam on business, and therefore that is how we see Q1. Therefore, Q2 is the quarter that we see sanity coming back, and beyond that, the outlook remains positive as far as we are concerned, given that the

underlying demand factors still exist completely, whether it is monsoon, crops, liquidity or the need for mobility. The GDP projections Q2 onwards are bullish, and should be double digit or 10% plus as the RBI governor has said. Of course, cost will continue to be a headwind for a couple of quarters, but as you would have seen from our results, we have been able to manage it, and therefore we will continue to navigate that space. Within our own portfolio, our outlook is positive in the medium and long term, and also for the rest of the year starting from Q2, our core brands have done well. As you have seen, scooters are making big strides, in premium we are building the portfolio, global business has started scaling up, we made big strides on EV as well, which will augur well for medium and long term. You have heard of all the partnerships that we have announced and therefore we should see all the outlined growth drivers taking better shape and contributing more and more to our topline and bottomline. Therefore, we remain positive about our market share and portfolio trajectory moving forward. With that, let me now hand it back to Umang. Umang, back to you, for opening the floor for questions.

Umang Khurana: Thank you, Niranjan for your quick update on the quarter and year gone by. Could we now take questions please?

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Pramod Kumar from Goldman Sachs. Please go ahead.

Pramod Kumar: Thanks a lot for the opportunity and hope and pray the Hero ecosystem is holding up well during these tough times. Niranjan my first question pertains to the commodity headwind if you can just help us understand how much of the commodity have we kind of absorbed and passed on to the customer and as we look forward to FY2022 how should one look at the cost implications from further hikes and its play on profitability, so if you can just help us understand this and of course I am not talking about 1Q here but broadly for the year as a whole if you can help us understand that?

Niranjan Gupta: Pramod, I hope you and your family and friends are staying safe and strong to battle the current crisis. Coming to your question, Pramod, the short answer is that if I take a full year on commodity inflation account, it would probably be close to around 6% to 7% that would have impacted the year. We have taken price hikes over the year, which is around 4% for the full year and the balance 3% has been made up through the LEAP savings program. So that is the overall view if I look at the totality of the program. So if we were to say, around 6% to 7% of inflation has been absorbed in these results. Moving forward, if you were to look, commodities continue to be at highs but at some time the supply should come in and cool them off. Of course, it is very difficult to forecast commodities, and maybe I can look forward to some of your reports coming out from Goldman Sachs to look at what the commodity forecasts are. Of course, last year, i.e., FY2021 was a tough year with so much of inflation, some bit of inflation would still come in into FY2022, but again, we will continue to navigate with a combination of judicious price changes in line with the industry, and maintaining our product positioning as well as the LEAP-II savings program, which again on full year basis, gave us more than 200 basis points, and should continue to work for FY2022 as well. So, I think we should continue to navigate that part of it, and

probably if there is an inflation around maybe 3% to 4% for the coming year, then a couple of percentage points can be made up from LEAP-II savings and others from the price hikes. And again, this is not just a quarter but a full year outlook that we have.

Pramod Kumar: Fair enough Niranjan that is actually very comforting to hear on the margin side and on the cost reduction side. The second and final question is on the Gogoro side. I think it is a very interesting move and approach what you have taken, so if you can just help us understand what would be the likely timeline for you to go commercial here because technology readiness is pretty much there with Gogoro, so your time to market may not be that long, and how does it fit into you with your existing EV plans in Germany. Is there any rethink there? And finally, in, there is a lot of hype and worries in the current environment about the startup ecosystem, given that some of them have made some big announcements. How do you see them from your vantage point and how would you expect this to play out between the less established incumbents vs. startups who are trying to break fresh ground in this industry?

Niranjan Gupta: Pramod, on EVs, as you rightly said, our own centers in Germany along with our Jaipur R&D centers, have been working on our own program, which is primarily based on fixed charging system and not on the swap based system, while the Gogoro partnership will be on a swapping system. So therefore and as you understand that in terms of which of these two systems will become dominant, our view is that probably both will work in parallel to each other. Given the entire appetite and the infrastructure that exists, it is complementary that our own program works on a fixed charging and then with Gogoro which will work on swapping, and that allows us to play in both the spaces. You are also right, and therefore, it does not have any adverse impact. If at all, it is a favorable impact because some part of the Gogoro learning and the products which are there, or some components, we could actually build into our own fixed charging program as well from a product point of view. From a swapping system, of course, like you said, Gogoro has got ready and proven technology. They know how it works and there is a lot of learning that has gone into it in Taiwan, so that helps us in taking off the ground very quickly. In terms of timeline, the timeline for both is next year. I would not say which part of the next year. Obviously we are trying to accelerate as much as we can, but right now, I would say that in the next calendar year, you can hope to see a lot of actions on the EV front from our side as far as hitting the market is concerned.

Pramod Kumar: On the challenge from the new startups, Niranjan, any thoughts there?

Niranjan Gupta: I would not comment on any specific announcement, however, what our experience is, and you also know, that for any new category which is evolving initially, there will be many players who will come in, and that is in some way good as well, because it allows the category to expand and explode, and in a sense, everyone brings to table some capability of the others, but eventually it leads to consolidation, because this is not a play, which is about an aggregation play or a software play or maybe an app play. This is a hardcore serving-the -customer on the vehicle, on servicing, on aftersales operationally, it is not easy and you would have heard even Tesla or Elon Musk saying recently that it is very easy to build prototypes and do a bit of stuff, but

operationally it is not that easy. Therefore, this is a hard thing that we will go in, so at some stage obviously consolidation will happen so we are not concerned about that, we are focused on what the companies are and how do we fulfill them, and that is how we are going about it.

Pramod Kumar: Thanks a lot Niranjan. Take care and stay safe.

Moderator: Thank you. The next question is from the line of Raghunandhan N.L. from Emkay Global Financial Services. Please go ahead.

Raghunandhan N.L.: Thank you Sir for the opportunity and congratulations on good set of numbers, given the circumstances. My first question was on the commodity part, you alluded to it and wonderful performance there in managing commodity inflation, but approximately can you give us an indication of the impact of commodity inflation in Q4 and approximately how much do you expect in Q1. My second question was on the market share on a full year basis. The company has done well and gained market share, but in the recent quarter, in 125cc segment, there is some pressure on volumes and market share. Is it due to inventory adjustment, or are you seeing higher competition intensity in that space, and just a third one, if I can squeeze in, with respect to the Harley Davidson tie-up, if you can give some details on plans of joint product development and any timeline, also details on margins for the distribution business?

Niranjan Gupta: You are testing my memory or my RAM space in my head, I will try to. On materials, since you are focused on Q4, you would have seen that our Q4 material cost on a per vehicle basis has gone up by around 4%-4.5%. you have seen from the results and out of that, you can say that parts have contributed more because parts percentage has gone up, that is around 2%, and on two-wheeler, if you isolate, then it would be around next 2.5%. Now this next 2%-2.5% is after factoring in a LEAP saving of 300 basis points in the quarter so effectively Q4 absorbs almost 500 basis points or 5% increase in the material cost, and that is a better way to put it, and therefore that is what gets absorbed in the results that you see. In terms of market share, let me address the Harley Davidson first and then I will give the market share question to Naveen. On the Harley Davidson tie-up, as we have said, the distribution business has already started, we are the exclusive distributors for Harley, and that business has started. Around 14-15 dealers have been appointed, all from their existing system, and the business is off to a start. Of course, the key part of the Harley Davidson tie-up is the license to build the middle-weight segment, which is a very profitable segment as you know, and the lead player has market share of around 90%. So there is this whole thing of developing the bike and putting it out in the market, both under Harley and Hero name, that is something which is a key part of the HD tie-up, and the teams have already started working and progressing on that. Naveen, can you take up the question on the market share where the question was that while in the full year we have gained, but in the recent times or recent month or quarter, we would have seen some softening, so what are we doing about it, and is it fundamental or otherwise. Naveen, over to you!

Naveen Chauhan: Thank you, and Namaskar to everyone, hope everyone is keeping safe and sound. Now, regarding the question, while Niranjan, in your initial address, you had talked about the market

share gain in different markets overall, I will do a double click there and maybe that will have an answer to the question that has been asked. So while you have talked about gains in scooters and premium, on the overall market share, if I take a breakup of urban and rural, we have gained in urban. Holding on to our market share, we have looked at the top markets, where we have gained. Now coming to the specific question, at no point of time, you will see quarter-on-quarter. the market share would be running at a uniform level, It is a mix or outcome of multiple factors playing and which segments are doing better, both in terms of profit segment or geographical, and also how are the biggest occasions panning out. In India, there is a lot of occasional buying that happens and hence how is the occasion fitting into various segments, so Q4 is an aberration, Q1 is what we are looking at, but unfortunately there is an impact of COVID, which is coming, but that is something that will manifest as the time comes, so for me Q4 is an aberration, but there was a specific question that was asked about 125cc. There is a sequential gain in 125cc, and now 125cc got two strong products in terms of Super Splendor and Glamour. We have seen some hit on the Glamour in its core markets. When we conceptualized the product in the BS-VI avatar, it was to attract a new segment of consumers, which were emerging as a growing segment. We have gained Pan India except its core markets. There is a feedback that we have received from the consumers in the core markets and we are working on that. We have been agile in past, we are agile now and quickly you will see some action, which is coming up in the segment.

Raghuandhan N.L.: Thank you, Sir. That was very helpful. Just a small clarification for Q1, what kind of commodity impact you are looking at?

Niranjan Gupta: Let me take that up so far, as I said, it is very difficult to forecast quarter-by-quarter commodity impact, and I did respond to Pramod on this question that maybe looking at what is going around, the full year may see an impact of around 4% inflation on the commodities, because large part of the commodity inflation has come in FY2021 and towards Q4, and obviously we plan to then make up for it, so that the impact on margins is minimized. So therefore partly through price increase and partly through savings programs, a combination of all these things will be used so that the balance between margin, market share and impact on customers is maintained.

Raghuandhan N: Thank you, Sir.

Moderator: Thank you. The next question is from the line of Nishit Jalan from Axis Capital Ltd. Please go ahead.

Nishit Jalan: Thank you for the opportunity and congratulations on very, very good set of numbers. My question is on the cost reduction side: Hero has been in this two wheeler industry for quite long and a very, very well-known especially on the cost side I am very surprised to hear positively to see these kind of 200-300 bps kind of a cost reduction benefits coming in just one year, so wanted to understand and get more color as to what is driving this cost increase it is a very steep increase coming in an organization, which is already very cost efficient in just one year timeframe so some more details on this would be very good?

Niranjan Gupta: Nishit, thanks for the question. See what happens is that whenever a cost base gets restated, which is what happened when we moved from BS-IV to BS-VI, and in BS-VI regime, the cost actually went up by between I would say 12% to 14% or 15% because of BS-VI. So whenever rebasing of cost happens, it again presents an opportunity to save on that. so that is why you see, if it was just BS-IV, probably it would not have been feasible to deliver this kind of saving, but as the cost has got rebased, then the opportunities emerged, because initially, it was all towards ensuring that the products are robust and they are delivered in the market and they perform, and now after that, just alongside R&D and sourcing the entire system has started working on what we can save on top of that. Therefore, that is the program, and out of that, one of the major programs is the precious metals, which is the catcon and a loading reduction, a combination. And as you know there are three metals, rhodium, platinum and palladium. You can work with different combinations of those, you can reduce loading by adding something else. So those are the programs that have given the bulk, I would say, 60%-70% of these savings and other savings that come from different areas, where obviously, as you go through a more squeeze on margins or costs, then you start looking at every angle once again, and that is what we have been doing.

Nishit Jalan: Sir, what I understand is that a bulk of the cost savings that we have started to put in after BS-VI, these are kind of bought-out parts that we are getting from suppliers, so if suppliers are doing these kind of cost reductions, should these benefits not flow to the entire sector or all the OEMs present, or is it something really specific which Hero is doing at its end, which means that the benefit is only for Hero and not for other players?

Niranjan Gupta: This is not the FI system, this is the catcon loading that happens in the product, which is combined of these three materials, so it is not a bought-out part. So essentially, you consume less of these metals, which is platinum, palladium and rhodium, and the combination of those depends on your R&D, and how you are able to size it up, so in a sense I would call it flex formulation, where you can use a different combination of these to achieve the same result and same BS-VI output in terms of emission norms. So it would not be same standard across companies or players, different players will have different solutions even between FI and carb, there will be different flexibilities existing.

Nishit Jalan: Sorry to harp on this a little more. If I understand correctly, 200 to 300 bps cost savings indicates almost Rs.1,000 to Rs.1,500 savings on a per vehicle basis, so what would be the content of precious metals typically in a bike. My understanding was it was around Rs.1,500 to Rs.2,000 originally. Was it much higher originally, and you have brought it down significantly to get these kind of cost savings per bike, or there is something else to it as well?

Niranjan Gupta: So I would not give out my entire BOM costs and details, because obviously that is confidential and competitively sensitive information. But just to give you a hint, all the precious metals' prices have gone up by 100%, 150%, 200%, so therefore whatever the cost base was there, itself has gone up, and then obviously through a combination and flex formulation like I said, and its an intense R&D program by the way, so it is not just bought-out parts negotiation that happens.

Of course you can talk to Umang more offline but obviously, beyond this point, we will not give out sensitive details of that.

Nishit Jalan:

Got your point and Sir my second question is on the spares side, because it is a second consecutive quarter now where we have seen a significant growth on that front. So firstly, if you can share numbers of this quarter, and secondly, what are the structural factors or drivers, which you are taking to bring this spares revenues higher, or it is just a factor that in Q1, Q2 spare revenues were lower, and that is the reason why we have seen much higher spare revenues in the second half. I am just trying to assess what is more sustainable and what is more transient in nature on the spares side of the business?

Niranjan Gupta:

So let me take this first and then I will ask Naveen to supplement. As you would have seen, if it was just one quarter phenomenon, you could have said that it is transient. Even at that time, we said that it is based on underlying drivers, which Naveen will spell out, but it is a successive quarter of Rs.1000 Crores plus, and we are now moving from what we used to have 7-8% of the revenue comfortably to 10% of the revenue and potentially to 12% of the revenue moving forward, but let me now steal the thunder from Naveen and Naveen, you can outline this, this entire story of how our past growth is being driven and how sustainable it is and what are our plans. Over to you, Naveen!

Naveen Chauhan:

Thank you, and maybe I will try and explain it in a simplistic fashion. There are two areas wherein the consumption is, one is our own captive market, which are our dealerships and authorized workshops, and the second area is the aftermarket beyond our dealerships. For two years now, we have been running a program called NPS 60 which is to enhance our consumer satisfaction level and to take our Net Promoter Score level from 12.5 years back to 60, fundamentally making our processes and systems very robust and strong, and hence retain the consumers and increase our spares revenue and consumers base. So that is one piece which is going on, and fundamentally, it is on the right space. Also, in terms of retailing and getting our lost customers back, we are reaching out, so there is a micro distribution of service, that is also a concept that we are working on. We have tested that in some select markets and it is giving results, so fundamentally the business grows in our authorized segments and its contribution is going to go up. The second piece is aftermarket. Around three years ago, we had a certain level of distribution system, wherein we had super stockist kind of distributors, we have gone micro there as well, and hence the customer intimacy. which is core to our approach in sales and aftersales is being played out in the aftermarket spare parts domain as well. As we get closer to our customers, we have got 100,000 technicians on board with us. The number of technicians who deal with us has doubled in the last one year, number of retail points, that is micro distribution, further to the third tier level has also gone up fundamentally. So fundamentals and distribution footprint is in place, and I would say that we have done with 70% of the market as yet. Because of the pandemic last year, we could not complete the full, so 30% still remains. This 70% is the kind of growth that you are seeing existing right now, so hence there is an upside available in due time span, so broadly that is on distribution and yes there is a lot of work which has been done to get to it.

Niranjan Gupta: Thanks Naveen, just to add on, our teams are also working on expanding the accessories and merchandising, which is a very small business today but a huge potential exist in terms of not only revenue but also creating a branding through that.

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

Kapil Singh: Congrats on a great set of results, also pretty heartening to see the kind of effort that the entire management is putting in these tough times to take care of the community, so wish you all the best for that. Firstly, my question is on the exports side. Niranjan, you alluded to the fact that exports run rate is touching almost 300,000 numbers, so just some thoughts on that would that be a right kind of level to look at for next year, or would you look at even better numbers, because for two years there are launches in queue for some of the key markets like Nigeria, so just an update on the timeline of new launches?

Niranjan Gupta: Thanks Kapil for the question. Yes, what I highlighted was just extrapolating Q4, because we do not want to take a month and extrapolate. But I think there was a quarter which you can extrapolate, and that is what it is, but yes we would like it to be higher than this for sure, and as you rightly said, there are multiple launches, which are planned whether it is Nigeria, etc. As you know, we have opened up Mexico, which is a big market, the orders have started coming in. Columbia, where we were stuck at around 4% market share for quite some time, in the last three quarters, we have moved to 6% market share, and Columbia is again half a million market, so therefore there is a big potential there as well. The strategy in Bangladesh has been reworked to increase market share, so honestly there are multiple actions and would the internal team be happy with even this run rate my answer would be no but then of course, you've got to build it and obviously we would like to come out with better numbers.

Kapil Singh: Okay that is great to hear. Secondly, I also wanted to check on this Gogoro tie-up and JV, could you talk about what are the revenue streams that we can expect here, what is the kind of investment that we can expect, because battery swapping probably will be a much more capital intensive model as well, right so what is the investment for this?

Niranjan Gupta: Business case and the investment, and in fact, the business model itself is being worked out, and therefore once we do the business model, then one can work out which way it will be done, whether it will be entirely capital intensive, whether it will be a franchise, how does it dovetail with FAME, etc. If you look at our strategy, and just to reiterate, the primary thing was our teams are working on fixed charging, which is also something we will have, our own product which we are doing in Germany in combination with our Jaipur R&D as well. We will start a fixed charging, but gradually it will also have a swapping option, and now you have Gogoro, which is a ready swapping option, yes without waiting for a swap option to get developed on our own product so you have a ready option with Gogoro as a swapping option. So I think all of these business models will get worked out, and essentially once it gets worked out and fine-tuned, then

we can come back to you in terms of what exactly the investments would be and the revenue streams would be.

Kapil Singh: Sure and Sir could you give the sales number for the quarter I think you did not give the number?

Niranjan Gupta: Spare sales number for the quarter was Rs.1,050 Crores for Q4 FY2021, Q4 FY2020 was Rs.751 Crores and just the previous quarter which is Q3 FY2021 was Rs.1,034 Crores.

Kapil Singh: Thank you, Sir.

Niranjan Gupta: On a full year basis, FY2021 was Rs.3,178 Crores, and full year FY2020 was Rs.2,896 Crores, just to complete the picture.

Kapil Singh: Thank you.

Moderator Thank you. The next question is from the line of Mukesh Saraf from Spark Capital Advisors India. Please go ahead.

Mukesh Saraf: Thank you for the opportunity. Sir question is on the EV again if you look at Gogoro tie-up plus you are doing your own vehicle plus you are also going to be participating in Ather, so could you give some sense on how are we positioning in these three products, could you give some sense on the price points at least directionally, the Gogoro one right at the bottom and then probably your own product and then Ather, some sense on how you are looking in these three that you are now approaching this market?

Niranjan Gupta: I think you will have to wait for the product to be launched for the pricing and the positioning to be revealed and as I said the launch is next year and next is the calendar year of course we are targeting as you would have heard our CEO also say targeting FY2022 launch itself, but you will see multiple actions from us in 2022.

Mukesh Saraf: But qualitatively if you could give some sense, because obviously you will be finalizing your modalities, etc., but given that you have already entered these three ways and if you look at entering in these three ways?

Niranjan Gupta: Nothing right now, let the suspense be there for some period of time.

Mukesh Saraf: My second question is again related to this. If you look at the last year or so, you have had two global tie-ups, one with HD and one with Gogoro, but when I look back say 10 years post the split with Honda, we have not really have dealing with JVs, while competition has been tying up with some of these MNCs. Is there some change in thought process there? Have you kind of earmarked some investments towards JVs to address some of these areas that we have been lacking in the past?

Niranjan Gupta: Mukesh we have already been tying up so as you have seen of course you are right when you say maybe a last few years, three to four years or whatever but if you see, we are seeing where would a JV or a tie-up makes sense, what is our own M&A strategy and then we are going as per that. So if you look at it, that is how in a premium segment we tied up with Harley Davidson, and that is something that obviously augments the entire premium strategy very well. We have tied up with Gogoro in EV, so you already see two big tie-ups that we have done in the very recent past, so honestly we are doing what is actually strategically required for the business.

Mukesh Saraf: So it is not like a change in thought process, because we have not been doing these tie-ups all these years, so it is not like there has been a change in strategy internally and some bit of investments that we want to do towards some of these?

Niranjan Gupta: Well, tie-ups always depend on two parties coming together and also the strategic direction, and third is that both parties should come to a commercial understanding which is a win-win relationship. So many times you keep working on those, and then the fusion happens at certain point in time, so it is not that we started working on these six months back and now it has happened, so it is not a big change in thinking; however, if you see our new vision and mission, vision being the future of mobility and mission being create, collaborate, inspire, clearly collaboration acquires a big space in our strategy moving forward.

Mukesh Saraf: Sure, understood. Thank you so much. I will get back to with you.

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

Binay Singh: Thanks for the opportunity and congratulations for a very good quarter in this challenging time. Most of my questions have been answered. Two, three 2-3 follow-ups from the previous questions, one is could you remind us what are the price hikes that you have taken this year and secondly, could you talk a little bit about any update on the Harley Davidson side. We have talked about product development with them, like you said, the Gogoro models be available in FY2023. When do we start seeing some sort of a product traction evolve with Harley Davidson, which year would you time for that, any capex that you have allocated to work that out?

Niranjan Gupta: Binay our price increase I think I already outlined but just to repeat over the year we took price increase to the tune of around 4% combined for all the quarters. If you look at HD, we would not be able to give out any timing right now, but obviously both the teams have already started working in terms of the product to be launched. Thirdly, on EV, as I said, FY2020-FY2022, which is the next calendar year end and not 2023. We are trying to launch one of the EV products in fiscal year 2022, and you will see multiple actions, whether it is our own product or a swap product or with Gogoro, all of those actions you will see in the next calendar year.

Binay Singh: Great, thanks a lot.

- Moderator:** Thank you. The next question is from the line of Rakesh Kumar from BNP Paribas. Please go ahead.
- Rakesh Kumar:** My first question was more of clarification, so have we started booking revenue for Harley Davidson distribution network, which has been got empanelled with us?
- Niranjan Gupta:** Yes, we have.
- Rakesh Kumar:** So can you please quantify, what would it be for this quarter?
- Niranjan Gupta:** It would be a small portion, because overall in terms of the context of the sales and the revenue that happens, it will not be a significant portion. Umang can actually give you more details offline.
- Rakesh Kumar:** Sure, thanks for that. My next question was more on the realization part, so from pre BS-VI level till now, our realization has increased by 20%. What do you see its implication on the demand side, because a large part of it is driven through the price increases and not much on the mix side, so does it make our demand or growth much more volatile in times of underlying weakness? And as a market leader, what are we doing to mitigate that?
- Niranjan Gupta:** Firstly, I think it is not right to combine all the price increases, because what is the price increase for and how it is communicated, what are the other industry players doing, and that is how it sets the expectation. So if you look at BS-IV to BS-VI which is the bigger one, around 15%, obviously the BS-VI product was not same as BS-IV, it was the FI system, new technology, better mileage and features, so in a sense, you are giving value to the customer and not just a regulatory change, and that is how it was communicated as well. Of course, after that 4%-5% that has happened is on account of inflation, and it got certain elasticity and demand impact, but then finally it comes down to the fundamental demand drivers and the need for mobility solutions, and what we are doing is while we are trying to push in the pricing impact, we are also trying to build affordable solutions. Let me now hand it over to Naveen to talk further about it.
- Naveen Chauhan:** Niranjan, you have captured it very well, and we have successfully been able to communicate the value story to the consumers, and right at the entry segment, if you look at Splendor, there is increase in market share that we have, and it is primarily because in these segments we have given the value of new technology to the consumers, so that has played well. I think, at this point of time, how do we make the affordable solutions for the consumers are the key for the industry growth, we have launched customized solutions recently, wherein the EMI comes down by 30%. We are testing it in certain select markets, we are going to deploying into the rest of the markets. Two-wheeler industry still operates slightly on the higher side as far as the financing cost is concerned, so that is one space to address. So I think the solution for growing the segment and industry lies in the adjacent space, and we are working on this.
- Rakesh Kumar:** Thank you for that. I will follow back in the queue.

Moderator: Thank you. The next question is from the line of Aryn Pirani from CLSA India Pvt. Ltd. Please go ahead.

Aryn Pirani: Thanks for the opportunity and congratulations on a good set of numbers. My first question was more on the year end, because obviously in the last one-and-a-half months we have seen various states going into this lockdown phase at various times, so can you give us a sense of your most recent reading of how things were on the ground both in terms of demand as well as inventory levels, and what we were seeing in terms of rural and urban. Why we are at the same place like we were last year same month, I think this time around, the dynamics of rural and urban are different at least that is what we understand, so any sense on that?

Niranjan Gupta: So Aryn, like you said, we are facing not just similar times as last year but actually much more challenging times, as we can see from the numbers, the infections and the consequences that are happening, and of course more and more states are also going under lockdown, and in fact most of the states I think have announced already so this would not be the time to read any kind of underlying demand or inventory levels or rural urban trends. I think this quarter is about everyone coming together to help each other and get over this humanitarian crisis, and then thereafter from Q2 onwards, as I said, the fundamental drivers of the demand would return. We do not see any underlying issue with any of the key factors that drive demand in two wheelers, whether it is monsoon, normal crop levels or fundamental rural income or need for mobility. I think all of those factors should come back so I think that would really be the time Q2 time when you start looking at these factors again.

Aryn Pirani: Okay, thanks for that, and secondly just going back to the EV question, so now obviously you have a three-pronged approach to this. You have Ather, your own product, Gogoro, and almost every other legacy OEM also has some products or the other out in the market, and then we have the startups, one specific one who has made a big announcement. So according to you, when is the inflection point for EV two wheelers, is it six months down the line, two years down the line in your best guess and how prepared are you in terms of all three things coming together for you, and is there a kind of volume that you are thinking from your side that you want to be prepared for if things really take off in the segment?

Niranjan Gupta: Right now to do a crystal ball gazing is very difficult because it is a category that is evolving, there will be an inflection point beyond which it can start growing much faster, and a lot of factors have to come in together, and therefore as a player what we are doing is to accelerate our EV program, and which is what you have seen where our R&D is working on our own products, which will come under both options, which is fast charging, charging and swap in a gradual manner tied up with Gogoro, which gives a faster on-the-road swapping solution, and of course we are invested in Ather, so I think this is a category which is where we have to put actions on the ground which we have done, and therefore I would say that we are well geared and moving towards that. Of course as you launch products as various customers will experience, with the customer habits and the learnings, this category will go through a lot of evolution before it reaches any kind of saturation or maturity level for it to then start growing on a steady basis. So I

think it would be wait and watch, and we are getting fully geared up, as you can see from the acceleration in the actions that we have taken.

Amyr Pirani: Okay, great. Thank you. I will come back in the queue.

Moderator: Thank you. The next question is from the line of Sonal Gupta from UBS. Please go ahead.

Sonal Gupta: Thanks for taking my question. This one was could you sort of give the other operating income for the quarter and then what is the capex in FY2021 and what are you expecting in FY2022?

Niranjan Gupta: So the other operating revenue as you can see because we have given out the parts revenue and you have the overall for the quarter was Rs.206 Crores for Q4 and Q3 was Rs.192 Crores and obviously the previous, which is Q4 of FY2020 was Rs.137 Crores, which was a truncated quarter so that was the operating revenue. What was your next question?

Sonal Gupta: I was asking about FY2021 capex number and what is the forecast for FY2022?

Niranjan Gupta: As far as FY2021 is concerned, I think we spent around Rs.600 Crores of capex, but offline Umang can give you more fine-tuned numbers, it is there in the cash flow statement. As far as next year is concerned, we are not outlining any numbers as of now. As far as Q1 is concerned, all of us are going through a very different level of crisis and challenges, and then we will recalibrate our capex and the cash plans.

Sonal Gupta: Just followup on that and how do you think about, like, while you are taking these multiple pronged approaches on the EV side, in terms of setting up any dedicated EV capacity, or do you think one of your existing plants could be sort of repurposed to be a dedicated facility. How are you thinking about that?

Niranjan Gupta: So again, this is something that we had announced long back – EMBU, which is Emerging Mobility Business Unit looking at all aspects, manufacturing, sourcing, even selling and marketing. So a lot of work is happening on that, other than the product work that I already talked about.

Sonal Gupta: Okay, great. Thank you so much.

Moderator: Thank you. The next question is from the line of Chirag Shah from Edelweiss Financial Services Limited. Please go ahead.

Chirag Shah: Thanks for the opportunity and congratulations for the numbers. Sir I have a question on the premium motorcycle category. We have articulated that we are looking to have a bouquet of seven to eight products and that is how we are looking at the premium category. Where are we in the journey, and would that include Harley a part of that strategy? We have seen two launches, are more launches likely to happen? And a followup question bBecause of this uncertainty around COVID, is our product launch timing scheduled getting altered or postponed?

- Niranjan Gupta:** Thanks Chirag. As you rightly said, we had embarked on this premium strategy in terms of filling the portfolio right across all the CCs and all the segments. You have already seen us coming out with Xtreme 160R, you have seen us coming out with Xpulse and you will see more and more products coming out every year so that is where I would stop. In terms of launches, are we not delaying launches. As of now, all our launch pipeline plans, which are there for the next three to five years remain exactly where they were.
- Chirag Shah:** Thank you very much, and all the best.
- Moderator:** Thank you very much. The next question is from the line of Jinesh Gandhi from Motilal Oswal Financial Services Ltd. Please go ahead.
- Jinesh Gandhi:** My question is a clarification on the cost inflation numbers, which you talked and savings numbers, which you talked about. Are they on Y-o-Y basis or Q-o-Q?
- Niranjan Gupta:** Year-on-year basis, 200 basis points LEAP savings program, which I talked about, where we used to have 60 to 70 basis points, which is what we have been saying earlier.
- Jinesh Gandhi:** Sure, any sense on RM cost and commodity inflation on Q-on-Q basis how it could be?
- Niranjan Gupta:** Very difficult to forecast, everyone who has forecasted commodity, whether it is upside or downside has been proven wrong. I think it is best to focus on....
- Jinesh Gandhi:** Inflation in fourth quarter on Q-o-Q basis?
- Niranjan Gupta:** Actually we talked about the material cost increase which has happened, as you can see from the published result it is 4.5% increase in material cost of which the two-wheeler is 2.5% and if you really gross it up for the LEAP savings for the quarter, it could amount to inflation of close to around 5% on material in Q4.
- Jinesh Gandhi:** Got it. My second question pertains to the Harley Davidson distribution accounting, so have we booked the distribution margins in our revenues, or how does it work?
- Niranjan Gupta:** No, it is full revenue, like full P&L. As a distributor, we buy from Harley and then we sell it onwards to the dealers, it is the full revenue that comes.
- Jinesh Gandhi:** With respect to financing, can you give some flavor of how was financing in the fourth quarter, finance penetration and how did Hero FinCorp perform for FY2021?
- Niranjan Gupta:** Financing in fourth quarter was at 48% around which went into financing and the FinCorp's share is 40%.
- Jinesh Gandhi:** Okay and any sense on HFCL's financial performance?



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- Niranjan Gupta:** That is not a listed entity, but all I can say is that they are back in terms of their business and growing, and they are maintaining a good capital adequacy and all the relevant issues.
- Jinesh Gandhi:** Okay, great. Thanks and all the best.
- Moderator:** Thank you. Ladies and gentlemen, that will be the last question for today. I will now hand the conference over to Mr. Umang Khurana for closing comments.
- Umang Khurana:** Thank you everyone for coming in. It has been a pleasure discussing our numbers with you. Please keep safe, everyone. Please take care of yourselves, and hopefully when we meet after the Q1 results, we will all be smiling. Keep safe.
- Niranjan Gupta:** We have to keep smiling even now to win this battle and I am confident and hopeful that when we have the next quarterly call, we would not be discussing COVID anymore.
- Umang Khurana:** God willing. Thank you so much for that, Niranjan. Thanks, Vivek, JMF for hosting us. It has been a pleasure. Thank you.
- Moderator:** Thank you very much. On behalf of JM Financial Institutional Securities Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.