"Hero MotoCorp Limited
Q3 FY2023 Earnings Conference Call"

February 08, 2023

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Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY23 Earnings Conference Call of Hero MotoCorp Limited hosted by PhillipCapital India Private 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 now hand the conference over to Mr. Saksham Kaushal from PhillipCapital India Private Limited. Thank you and over to you Sir!

Saksham Kaushal: Thanks Tanvi. Good afternoon everyone. On behalf of PhillipCapital I welcome you all for the Q3 FY23 earning call for Hero MotoCorp. For management introduction and opening remarks, I hand over the call to Umang Khurana, Head-Investor Relations. Over to you Umang.

Umang Khurana: Thank you Saksham. Hello and good afternoon everybody. Welcome to the investor call for Q3 FY23. On the call today, we have, as usual, the Chief Financial Officer Niranjan Gupta, the Chief Growth Officer Ranjivjit Singh and the Head for Emerging Mobility Business Unit Swadesh Srivastava. We will begin with the CFO's opening comments. Over to you.

Niranjan Gupta: Thank you Umang. Good afternoon, good morning and good evening depending on which part of the world you are joining from. You would have seen our results which we announced yesterday evening. We delivered quarter revenue of Rs. 8,031 Crores and net profit of Rs.711 Crores. Our topline is reflective of sequential market share improvement and we expect this to continue moving forward, backed by multiple launches and front end action. Our focus on increasing non product revenue is yielding excellent results, which are parts, accessories and merchandise business registering all time high quarter revenue of Rs. 1,259 Crores. Our gross profit per vehicle has reached all time high of Rs. 19,800 per vehicle, which increases our operating leverage and will benefit when higher volumes kick in, in coming quarters. This has been made possible through a combination of judicious price increases and accelerated saving program across the supply chain.

Our EBITDA margins at 11.5% is after absorbing spends on our emerging mobility business unit to the extent of 70 basis points, reflecting underlying ICE business margins of 12.2%. With overall inflation expected to stabilize, our margins should be improving moving forward. Our profit after tax at Rs.711 Crores reflects improvement in PAT margins to 8.8% in Q3, almost an improvement of 100 basis points sequentially. During the quarter, we commenced deliveries of Vida and are now present in three cities. We will continue to expand in more cities in coming months and quarter.

Moving forward as we have said earlier, while global headwinds are expected to continue with some countries coming out of the woods while others may take a little more time, India is relatively much better placed and all key economic indicators are moving in the right direction. The recently announced union budget further solidifies the platform with its focus on capital expenditure on one hand and increasing disposable income on the other. This should help the auto sector and we expect double digit revenue growth for the next fiscal for two wheeler industry. As mentioned earlier, we are on path to market share recovery and backed by action on all fronts including multiple product launches which are lined up in the coming quarters, we expect ourselves to grow ahead of the industry in FY24. On that note, let us open the floor for Q&A. Over to you Umang.

Umang Khurana: Thank you. Let us take the questions now please.

Moderator: Thank you very much. We will now begin the question and answer session.

The first question is from the line of Chandramouli Muthiah from Goldman Sachs. Please go ahead.

Chandramouli Muthiah: Good afternoon and thank you for taking my questions. My first question is on the product mix this quarter. The 125cc plus models have been 13% to 15% of our volumes over the past couple of years, but this quarter it appears to have fallen to close to 9% of the total mix. Is there any underlying trend you are observing that could be behind this? Any color here would be helpful, thank you.

Niranjan Gupta: Right, let me just ask Ranjivjit to take this question on the 125cc.

Ranjivjit Singh: Yes sure, thank you. On the 125cc, we have actually made good progress with Glamour XTEC. XTEC has added to the confidence that has given in the market a tremendous amount of acceptability. We have also had a campaign that has been running with Ram Charan and that has created a lot of excitement in the market. We are strengthening our 125cc portfolio as we go forward, which in the Super Splendor we will be coming in with an XTEC and I think that will give a very positive fill up to the entire portfolio. Its also the time for marriages and it is a very good demand generation that will take place for the 125cc. So we see a very positive outlook coming from the 125cc. Going forward, we are also strengthening our portfolio, coming in with a couple of more launches in FY24 and we will be sharing more details about this as we go along. Overall, premiumization has been a trend that we have really come in quite strongly in our overall portfolio. Now XTEC contributes to over 30% of our portfolio, so that is another big trend that is happening and it is helping us consolidate and further strengthen our position in our core markets. So 125cc is work in progress, you will see some new information from us coming in towards the end of this month and then as we develop it further, we will strengthen our position.

Niranjan Gupta: Yes also just to add to what Ranjivjit said, in the quarter we have done inventory adjustment. So if you look at that amounts almost for the 5%. So really speaking what you are seeing as I think 9% to 10% underlying, it is still 14% to 15%, just to call it out.

Chandramouli Muthiah: Got it, that is helpful. My second question is on the Gogoro swappable battery electric two wheeler partnership, just trying to understand if there are any updated timelines there and just separately if Gogoro plans partnerships with other OEMs or mobility services in India, would Hero in that scenario have exclusivity in certain geographies or will you have to compete with the other Gogoro partners?

Niranjan Gupta: So let me just ask Swadesh to talk about our EV plans and what we have done and then I will supplement it if required. Swadesh.

Swadesh Srivastava: Thank you for that question. So see for us, right now there is a lot of focus on getting our Vida product and the Vida launches across the cities, and the expansion plan through the country are stabilized and really putting all the effort behind that. The subsequent products and projects, as we get closer to rollouts, will be shared in the due course and I think whatever is the right model for partnership or rolling out will be disclosed. At this point, I would just say that the whole focus is going on establishing ourselves with our product.

Chandramouli Muthiah: That is helpful. Thank you very much and all the best.

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. In the opening remarks you added that there was a 70 basis points headwind from new mobility business. Could you elaborate a little bit more on that?

Niranjan Gupta: Yes, this is basically around because we did the Vida launch in this quarter and therefore we are calling out essentially all the spends that we have done on this unit, whether it is the manpower of the dedicated business unit or the advertising expense that we have done. So all put together, the P&L absorbs 70 basis points, which of course if you look at Q3 of the last year it was insignificant or negligible.

Binay Singh: Right, so to an extent if I adjust for that, then obviously other expenses come down. So in this quarter, is it fair to add that even the sales promotion spending would have been quite high because we had the Great Indian Festival running throughout October?

Niranjan Gupta: Yes that is true because this quarter actually absorbs three things. One is the EV spends that we have talked about which of course will continue moving forward, but that reflects that our underlying ICE margins are much stronger than what is reflected in the reported results, which allow us the funding of the investment in EV as we move forward. The other two which are there is the CSR spends which in Q3 of the previous year was subdued. There was hardly any spending because of phasing, while this year it has been proportionate spends as far as this quarter is concerned, so that is around Rs.20 Crores and there is a big around the festive spends as well which happened, because it is a quarter where the entire industry and therefore it was spent and therefore the festive retail was reflective of that. So you are absolutely right, so those are the three reasons for the elevated other expenses in this quarter.

Binay Singh: Yes, thanks for that response and just further like you said that the EV expenses will continue in the coming quarter, could you sort of share because a lot of the launch costs would have already been done right? Now it will be mainly more reflected in lower gross margin rather than higher other expenses. Is that fair way to look at EV ramp up?

Niranjan Gupta: Because we will continue to expand to multiple cities in the coming months and coming quarters. So as you continue to expand, so therefore we expect, and in fact I will not say those are expenses or spends I would actually say those are the investments in building a category, so to that extent those will continue.

Binay Singh: To a similar kind of a like 50 to 70 basis point of sort of a little bit of a drag on margin should continue because of electric vehicles?

Niranjan Gupta: So I would not say drag on margin, I would say reinvestment of ICE margins behind building the EV category. So that is how my definition of that would be and of course like we have given commentary, we do expect the underlying ICE margins to improve moving forward which is what I have also given in my opening commentary as well.

Binay Singh: That is pretty fair. Just lastly on the gross margin, good to see gross margin expansion playing out. Taking into account price hikes and the cost index, do you see more tailwind on the gross margin side?

Niranjan Gupta: Ideally there would be because now as we move, we have seen over the last two to three years that cost inflation had been running ahead of price increases. Now logically speaking, it should reverse moving forward where the cooling off or stabilizing of commodity or overall inflation allows some bit of more realization to go towards the margin improvement. So yes directionally speaking, the significant headwinds of commodities that we had, inflation running ahead of price increase, that we do not expect it to be, but equally one cannot forecast commodity prices. So we will have to navigate this space. What is reflective of that, even in the period of elevated commodity cost, we have been able to manage our gross margins very well by delivering gross profit per vehicle which is an all-time high level and there is actually increase in operating leverage as the volumes go up, then obviously the more quantum will flow down to the bottom line straight away. That is I think the key significance of the GP per vehicle going up.

Binay Singh: Great, thanks for those responses. I will get back in the queue.

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

Kapil Singh: Good afternoon Sir. My question was on margin expansion that you talked about. If you look at FY24-25, when we are targeting to get to a target range of margins that we talked about, do you expect that to be driven more by operating leverage or you expect further improvement in gross margins also? The question that is coming is mainly because there is a feeling that bikes have become expensive and maybe it makes sense to hold the pricing and let the operating leverage, or what volume increase, play out. So how are you thinking about it? Do you think there is more scope to raise prices or hold the gross margins here which are probably at a good level as you said?

Niranjan Gupta: Kapil, thanks for the question. As a business, one will continue to see that how do you exercise various choices moving forward. So it will also depend on the growth of the industry that happens and the competitive price positioning, so it is not a simple answer in terms of the price increases vis-à-vis inflation and also the commodity scenario, but yes moving forward the operating leverage should start contributing a bigger number on our direction to improve our margins towards our medium range guidance.

Kapil Singh: Okay thanks Sir and second I just wanted to understand again from a more two to three year outlook perspective, what is the strategy for driving market share and also in areas of exports as well as EVs and in particular on EV, just wanted to also understand whether you are thinking about a market share or certain position within that segment, let us say being in top three to four kind of players on volume front or it is still early days to think about those type of things. How you are approaching that segment?

Niranjan Gupta: Kapil you have nicely asked three questions in one question, but we will attempt to answer all the three. First let me just request Ranjivjit over the medium term, what is our key actions to improve market share and then I will request Swadesh to talk a bit about the EV plans of the medium term.

Ranjivjit Singh: Sure, we have got a fabulous platform to build on and we are looking at expanding that portfolio. We have talked about this before that we will see product launches every quarter as we go along and our key focus areas is around premium, 125cc and scooters. So we are feeling good about the portfolio that we have and that will help us drive market share in the areas that I have just highlighted. Besides that, there are going to be couple of other very strong initiatives that we are continuing to improve on and continue to strengthen, which is around our channel efficiency, channel effectiveness and the whole customer experience around that. So new visual identity that will really give way and this is something that we are already piloting and consumers are feeling quite elated with the experience that they are having and the conversion rates are improving there. There is a whole digital footprint from consumers and that brings me to the third point of process. There is a fabulous improvement in terms of the scope that we see for how the consumer journey plays out with Hero and looking at that very comprehensively, whether it is in the area of looking at what the choices are, what the options are, the whole Omni channel part and also looking at the one app that we have recently launched, so that creates a complete gateway into Hero from a customer service, loyalty, community, all of that comes together. So a combination of these three things which is our portfolio, our channel and our processes are going to help us really strengthen the brand and our market share and the elevation of the brand and the continuing strengthening of the brand with the premium portfolio that we launched is something that you will see. I am sure you would have noticed the launch that we did recently which is Xoom. I believe that would be a good thing to reflect on in terms of how consumers are looking at Hero now. It is a very a sporty 110cc with industry leading features and with segment leading features and that is coming out extremely well. So overall I would say, there is a lot of customer association that we are building around premium, there is a lot of experience that we have been building with the Hero Dirt Biking Challenge, all of those things are going to help us in terms of the future way forward.

Swadesh Srivastava: Thank you Kapil for that question. We have come in to really create this category as it is still nascent in the EV space and with this year, big milestones on the brand launch of Vida which has come out as you have seen in a very differentiated and a new age way. With the launches in the three cities- Delhi, Bengaluru and Jaipur where the customers are really taking up to the product and the overall sales and pre sales experience. With this sort of stage, the setup stage, we are really ready to now multiply into many cities going into FY24 to establish ourselves wider into the market with this product and then subsequently we have an accelerated portfolio to come in the next 18 to 24 months where that will help us establish us deeper into many other segments as we have already gone wider in FY24, right. So basically we have established the brand and the positioning with the ecosystem set up this year, going into much wider markets next year and then deepening our leadership with the accelerated portfolio over the next year. So that is what we are looking at as a plan.

Niranjan Gupta: Thanks Swadesh and Kapil, let me just address the global business part also because of the third 1.3 as your question or 2.3. As far as global business is concerned over the medium to longer term, we do want global business to be at least 10% of our overall revenue. There are actions which are in place, there have been headwinds in the last year we all know about, a lot of key markets which have faced huge headwinds on currency inflation, some of the markets even closing down like Sri Lanka, but obviously these markets will come back and therefore we will scale up. If I were to just sum it up in terms of the three legs that you talked about- on our domestic ICE business core, we are doing well in the short term, we do need to recover our 125cc market share which the actions have been lined up already by Ranjivjit. Our opportunity lies in building premium portfolio which multiple launches are lined up, not only coming year but actually next three to five years and you will see therefore in the medium term, us building meaningful market share of the premium backed up by the portfolio. And on global business is medium to long term which is actually scaling up to be a certain percentage of our overall revenue, and on EV, clearly it is a geographical expansion followed by portfolio expansion. So those are broadly, if I were to sum it up, strategies for us on the medium term moving forward on how we are going to grow on our top line and market shares.

Kapil Singh: Thank you very much Sir.

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

Kumar Rakesh: Good afternoon team. Thank you for taking my question. My first question was some clarification around the EV impact of 70 bps which you said about. Given that the revenue contribution was very small in the quarter and our geographical footprint is also very small, it seems to be a quite large impact which we are talking, about 70 odd basis points. As we move into the coming quarters, when our geographic presence will start expanding and potentially we will expand our product portfolio as well, currently the product is at the premium end and possibly we will launch much more lower price products as well, do you see the risk of this impact or the way Niranjan you want to put it, the investment needs to be higher for the EV business in the coming quarters?

Niranjan Gupta: See because there are also a lot of initial expenditures which are there, and like you said, the contribution to top line has not yet started and therefore the moment your contribution to top line also starts, then that starts playing out at the same basis point actually accrues larger amount in terms of what one can spend. So I think this is how we will navigate the space in terms of moving forward. As of now we feel that we are sufficiently resourced both on capex and our P&L side to fund our investment plans as we move forward because top line also will accrue, and in fact on the cost front like you said portfolio, remember that the industry gross margins on EV are low to close to being negative and that of course with all the scale and the savings program, as an industry and us also which we will deliver, that will show a significant improvement. So therefore you will see the GM improvements coming up with the economy of scale and cost reduction plans over the next two years for industry as well as for us, which will actually act as a tailwind. So the combination of these tools will reflect, we are not concerned about this, these are investments into building categories.

Kumar Rakesh: Thanks, very helpful Niranjan. My second question was around your new scooter launch which you recently did Xoom. Can you just take me through the thought process, the areas we wanted to address with this new launch and what corrective measure we are targeting with this launch and potentially other scooter segment launches?

Ranjivjit Singh: Sure I can take that, Ranjivjit here. So we are very, very excited about the Xoom launch and I think it has been very, very well received. I think the industry first corner bending lights was quite a hit in terms of how it is played out and the demonstrations that we have done and showcase have really been taken up very, very well. The fact that in 110cc segment coming up with such a sporty scooter with bigger wider tires, with a disc brake, with the fastest acceleration in its segment, with a very aerodynamic design, with a lot of technology built in including things around the bluetooth and the storage and everything else really ticks all the boxes in terms of what consumers will want from a scooter and I think that is the level of excitement and anticipation that we are getting for this. So it really sets us up and it is a radically new design, it is a refresh in and reimagined thinking which is why we chose to also launch it under a new brand name of Xoom, which is very youthful, very exciting, and very thrilling. It takes you from the city and into the other bumpy roads that you might want to go or the gradients that you want to climb. So there is a lot of use cases for this very beautiful scooter and we are excited about it.

Kumar Rakesh: Great thanks a lot for that, super helpful. That answers my question.

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

Raghunandhan NL: Firstly, on the entry level segment and rural demand, how are the demand conditions post festival and commencement of marriage season? Are you seeing improvement in enquiries and bookings?

Ranjivjit Singh: Okay, so on the entry segment and rural, we have in fact strengthened our position in Q3 in terms of market share. You have seen that, and I believe this is really a good time for us to take it even further. The marriage season is on, in fact, the marriage season were to be there for the next six months, so the auspicious dates are there. We are looking at a further strengthening and uptake for our entry as well as the 100cc to 110cc segment and that is where our strength is coming from. Rural has been a little bit lower in terms of the uptake compared to urban areas, in terms of where we have seen that, but we are seeing green shoots. The marriage market in UP, Bihar, West Bengal, all of these markets are coming back and it augurs well for overall demand for the entry and the commuter segment.

Raghunandhan NL: Thank you Sir. Secondly, on the share of profits from associates, have seen a strong jump. Would it mainly be because of Hero FinCorp?

Niranjan Gupta: Yes, Hero FinCorp has improved. The profit, as last year Q3 was a loss and this year Q3 they have delivered Rs.192 Crores of profit, plus of course also there is a onetime gain coming on account of the investment done in Ather by GIC which came after the initial round and therefore based on the shareholding pattern change, there is a one-time gain as per the accounting standard. It is a combination of both the factors that have come in into that.

Raghunandhan NL: Thank you for that Sir. Lastly, if Swadesh Sir can speak about order bookings for Vida, the expected ramp up in production and Vida has been at the premium end, so would you expect a more range of products across use cases covering various prices going ahead, you spoke about next 18 months?

Swadesh Srivastava: Yes, Hi Raghunandhan. So the response has been great in the three cities where we have launched- Delhi, Bengaluru and Jaipur. As you might be aware, in Jaipur we started on January 22, 2023 and Delhi we started on January 25, 2023, Bengaluru we started December 30, 2022. So, there have been bookings quite a lot and we have already registered 250-300 vehicles in the three cities so far and we have a huge pipeline ahead of us to do the deliveries in the coming weeks of this quarter in these cities, and then as I mentioned, we are already going to launch a few more cities within this quarter and then a much wider nationwide expansion next year will happen with this product. In terms of the product portfolio, as I mentioned, we have an accelerated plan where we have products coming in other segments as well. The mainstream, the mass segment as well and that will help us cater to the different segments and different geographies. Overall, we have also set up multiple charging stations across these three cities and that was our promise to the customer, that when we launch we will launch as a complete ecosystem. We have roughly 18 stations in Bengaluru and 15 each in Jaipur with multiple charges at each of these locations. So we are at a very strong position, also from the customer feedback point of view on the product and the overall presales and sales experience and we are very well placed to expand through many cities in the next financial.

Niranjan Gupta: Thanks Swadesh. Just to add Raghunandhan on a clarification on the FinCorp, the loss I was referring to was nine months last year versus a loss of Rs.260 Crores versus nine months of profit this year of Rs.461 Crores. As far as three month is concerned, it is Rs.192 Crores versus Rs.131 Crores, just to so that the numbers are understood correctly.

Raghunandhan NL: Thanks so much for the clarification sir. Just one more clarification, when you indicated that gross margins would be lower for EVs, this is without counting the PLI benefits. By when would you start accruing them?

Niranjan Gupta: We will start accruing it moving forward because we have just launched it, but you are absolutely right, do not incorporate PLI benefit. The other point I was just saying that, as we move forward, as scale moves up and cost reduction plans kick in, overall this BOM cost of the EV products as an industry also will come down because a lot of localization happening, it is not just PLI but there would be multiple things that will bring down hopefully the BOM cost of EV products moving forward.

Raghunandhan NL: Thank you Sir. Wishing all the best.

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

Amyn Pirani: Thanks for the opportunity. My question was actually more on the retail and the wholesale. Your retails especially in 3Q were quite strong but wholesale have been subdued for some time now. So would it be fair to say that the inventory levels are now at a healthier level compared to the last, say one to one and a half year average, and where would they be and how do you see this moving, retail versus wholesale over the next six or nine months?

Niranjan Gupta: Let me take in general and then I will ask Ranjivjit to probably add. You are absolutely right. We have been trying to keep a balance and therefore our retail in Q3 was strong. We have been keeping an eye on inventories, and clearly moving forward, as we see industry growing and us growing on market share, and relative to that we would say that we are quite comfortable as far as the inventory levels are concerned. Ranjivjit do you like to add or amplify anything.

Ranjivjit Singh: Yes, definitely Q3 had the benefit of the festival and the retails, we led the industry in many ways in terms of the growth that we saw on retails. It is also a time for us to just make sure that the transitions like we talked about, we just launched the XPulse 200T which has got off to a great start, we launched the Xtreme 160R Stealth connected 2.0 and these are important for us just to make sure that the transitions are well managed and therefore our inventory level is about in the region of seven weeks, which is pretty healthy in looking at the future in terms of the marriage season, which I had highlighted earlier in terms of how the demand generation and how the demand is going up. So it is looking good in terms of the overall availability and the overall health of the business in terms inventory.

Amyn Pirani: Broadly, can you help us understand where would we be like five weeks, six weeks or lower than that, broadly speaking?

Niranjan Gupta: We have always outlined the range of four to six weeks when we take our own dealer stock levels and we will continue to be in that range moving forward. Of course the higher the growth in terms of number of weeks, it will come down and this I am talking about the dealer stocks because that is what we usually measure.

Amyn Pirani: Okay great. Thanks for that. I will come back in the queue.

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

Gunjan Prithyani: Thanks for taking my questions. I have one follow up question on the gross margin improvement. Could you give us some sense as to what is the benefit of price hikes that is flowing through in this quarter and I do recall that we have taken more price increases, so some color on that please?

Niranjan Gupta: Gunjan, in terms of the overall price increases that we have taken, which we have been taking consistently over the last four quarters, in line also with what the industry has been taking. The last one that we took was on December 1, 2022 which was close to around Rs.930 ex-showroom as a price. Other than that, of course there is also, and before that if you look at the quarter it would be reflective of increase that we took in August which we took around Rs. 300 and September around Rs.500. So there will be partial ones that flow in into the quarter as well. Other than that LEAP savings, for instance if you look at our LEAP savings over these nine months, we have delivered close to around 80 basis points of LEAP savings into that. So a combination of those two then offset by a bit of mix, it is all combination of various factors that is leading to the gross margin improvements.

Gunjan Prithyani: Okay so the metal correction, I guess, then would be somewhere in the range of about 150 to 200 basis points. Does that sound right to you?

Niranjan Gupta: Yes.

Gunjan Prithyani: Okay. The other question that I have, and this is going back to the strategy, I mean clearly you have spoken a lot about what we are doing on 125cc and premium, but going back to the entry segment which is really important for us, we have been continuing to take price increases and we did see, you know October and November, which sort of did so well because of the Great India Festival that we ran or there was more intervention or excitement created by yourself, when we fundamentally think about next 12 to 18 months, I mean, it is on Hero to take the market back right, to bring the market back in the entry segment. So why are we taking these sort of price increases and not sort of create that excitement scheme, fares and get the market back? I am just trying to understand the strategy around that segment?

Niranjan Gupta: Gunjan clearly our strategy around entry is to expand that category and therefore convert who do not own a two wheeler today to own two wheelers because we are the leaders in that segment and that is our strategy on that part of it. The price increases have been necessitated because of the commodity inflations that have been there. Moving forward as we see, as we all know even the interest rate hikes probably we just saw today morning 25 bps rate hike which is a softer rate hike, we see US fed also potentially going now slower and inflation in the direction of cooling off. So it therefore allows now pricing to be a much softer in terms of moving forward as we go in, so I think that is the combination that we have done and there are lots of actions which we have done on the front end and let me talk to Ranjivjit to talk through what we are doing to expand the category and how it is about the product and what we are doing there.

Ranjivjit Singh: Yes thank you for referring to the Great India Festival, of course we talked about that. In the entry level, we have done campaigns which have been extremely effective like Mileage Ka Hero, that has really hit a sweet spot because that is a concern and people trust Hero for coming up with the fuel efficient bike, it is a key buying factor, so that really helps us to consolidate and strengthen our market share there. When we look at the consumers in terms of first time buyers and the replacement demand, we are also seeing replacement demand coming back and we are already driving the exchange market, so we have a very scalable do-it-yourself kind of an app that people can evaluate within seconds their current vehicle and get a price for that and then we have a system through which, the Wheels of Trust, through which they can exchange their bike and then we also have Hero Sure outlets where they can buy new and refurbished bikes from there. So we are really doing market leading initiatives in terms of what the market requires for first time buyers as well as for replacement demand to further strengthen and give confidence to our consumers. In addition to that, from a customer service perspective, we are going to wherever the customer is. We are doing a lot of micro workshops, we are doing mobile workshops to take our service to the consumer wherever he or she is, even if it is in a village or wherever. So there is a lot of building of trust that Hero stands for and we continue to work on that very, very strongly.

Niranjan Gupta: In fact Gunjan, just to also since you talked about this segment wise price increases, if you track our price increases over the last three years, overall on the entry we have taken far less than what we have taken in the other segment. So that is also reflective of how we are trying to cushion the impact at the bottom of the pyramid. Offline you can of course take these numbers from Umang but overall far less as compared to the other segment. We have been conscious of that, where the combination, it is also important to note that if you look at 110, you look at 125 and look at all of these, it is also about the product and the features that you actually deliver and that is why each of these segments, the variant that is actually at the highest price and commands the highest volume in that. So in a sense it is not a direct correlation but we have been conscious of cushioning the impact at the bottom of pyramid and that is reflective on last three years, how we have softened and taken far less price increases in the entry segment compared to the other segments.

Ranjivjit Singh: Consumers are working up to the retail finance schemes as well, so that is making it easier. So we are really again helping our consumers to fight over the inflation and acquire and bring home the Hero.

Gunjan Prithyani: This is really helpful. I will join back the queue. Just we can have the spares number for the quarter, spares revenue?

Niranjan Gupta: Right as far as the spares revenue for the quarter is concerned, it is Rs. 1,259 Crores for this quarter, Q2 was Rs. 1,244 Crores and last year same quarter Q3 was Rs. 1,186 Crores.

Gunjan Prithyani: Thank you so much.

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

Jinesh Gandhi: A couple of clarifications, one is did we indicate inventories that are around seven weeks now?

Niranjan Gupta: Jinesh it is about looking at whether you are looking at the current sales or looking at the forward sales. So when we are looking at our forward plan, it is at the top end of the four to six weeks if we take just the dealer stock count which is what we measure.

Jinesh Gandhi: Got it and the second question pertains to this RM cost savings. You indicated 150 to 200 basis points, that is the saving which we have seen on the Y-o-Y basis or that is sequential saving?

Niranjan Gupta: It would be on Y-o-Y basis.

Jinesh Gandhi: Okay and sequentially this number will be about plus 70-100 basis points, will that be correct?

Niranjan Gupta: Absolutely, probably around that, and Umang can offline also take you through more details.

Jinesh Gandhi: Sure and the third question pertains to the BSVI Phase 2 transition. So given that we are in season for the marriage season and the BSVI Phase 2 transition is required by March end 2023, so how are preparing for that transition?

Niranjan Gupta: Yes, so the transition is on manufacturing. In fact, in some of the models we have already started manufacturing. So by March actually we will be transitioning on the manufacturing. So from April 1, 2023 onwards all our manufacturing will be on OBD II Phase 1 which is what the mandate is.

Jinesh Gandhi: Okay and we do not expect material price hike over there, under 2% is what we have indicated?

Niranjan Gupta: The price hike is not that material on the OBD II Phase 1. We would be, once we actually put out the product in the market you will see that, but it is expected to be probably in the range of maybe Rs.500 to Rs.800 per vehicle.

Jinesh Gandhi: Got it and can you clarify on the other income, we have seen a good spike. Is there any one off for mark to market gains from treasury, what should lead that?

Niranjan Gupta: So other income is reflective of, if you see last couple of quarters, a) we were absorbing the MTM loss on Gogoro which were one off actually and that is not there anymore in this quarter. The other thing is of course if you look at the yields, the treasury income, there again in the last two to three quarters you had the yield hikes which were there and reflecting in the MTM losses which were not there. So broadly speaking, those make up in terms of the other income. Essentially the MTM losses which were accounting in the last few quarters, those are not there and that's what is reflective of the normalized levels in our other income.

Jinesh Gandhi: Great thanks.

Moderator: Thank you. The next question is from the line of Joseph George from IIFL Capital. Please go ahead.

Joseph George: Thank you for the opportunity. I have a couple of questions on the EV business. So when you launched the Vida V1 Plus and V1 Pro, the prices that were mentioned were Rs.145,000 and Rs.159,000 both ex-showroom Delhi and the numbers in the press release yesterday was Rs.135,000 and Rs.147,000 and that too on-road. So is the difference entirely explained by state level subsidies or have you moderated the prices since you announced it during launch?

Swadesh Srivastava: No we have not moderated the prices. It will reflect differently in different cities and states but the prices are same. We have not moderated. I will come back to you on this separately as well Joseph.

Niranjan Gupta: But yes, just to confirm, we have not done any discounting or not changed any prices since launch. So it will be taking into account the subsidies, state level, XYZ and Umang will offline share the full details from the ex-showroom to on-road.

Joseph George: Understood thank you. The second question that I had was in relation to the EV business. Now for instance this quarter you called out about 70 bps of impact on margins because of the EV business, is there any plan to park the EV business in a separate subsidiary? A lot of other OEMs are doing it, makes it easier to continue to measure the profitability of the ICE business on a like to like basis rather than you having to call out this number every quarter, so any thoughts there?

Niranjan Gupta: There are of course, that is why because of, in order to ensure and we always do, transparency of our P&L, that is why we called out both the numbers even though they are embedded in the same P&L. As far as corporate structuring is concerned, it is much beyond just the numbers or the segmental reporting. It is about various considerations one has to take into account at what stage of launch you are, the taxation, your balance sheet, your intent behind doing that. So we continue to evaluate all options and as and when anything fructifies, obviously you will know that.

Joseph George: Understood. Thank you, that is all for me. Thank you.

Moderator: Thank you. The next question is from the line of Shashank Kanodia from ICICI Securities. Please go ahead.

Shashank Kanodia: Good afternoon Sir and thanks for the opportunity. Sir, we do take cognizance of the fact that there is a change in narrative. Till last quarter you used to guide us for double digit volume growth whereas this quarter you are saying double revenue growth. So does this guidance hold true for next fiscal as well or we are just talking for FY23?

Niranjan Gupta: This guidance is for the next fiscal which is FY24- the double digit revenue growth for the industry.

Shashank Kanodia: Okay. Secondly if you can help us, dissect more of a rural demand because on one hand we do read about new better rate realisation for the farmers and a double digit tractor sales but on the other hand I think two wheeler as a segment is not really picking up pace. So is that category well panned to be in rural India which is something which is being denying in the past, so how do we report it?

Niranjan Gupta: Let me request Ranjivjit to talk about the rural demand and how does he see panning out.

Ranjivjit Singh: So we are already seeing somewhat of a recovery coming in rural, we are seeing these green shoots which are in markets like UP, Bihar, MP, Rajasthan just we are seeing reasonably good growth there and we think that this is just the beginning, like I mentioned that there is a marriage season that is ongoing that will continue for a few months, the crop outlook has been good, overall there is stability in the system. So we are looking at people really coming out being on the move, their needs for personal mobility will continue to increase and we will make it easier for them to buy with our retail finance and many other enablers that we continue to work on. So we believe this is a time when there will be positive outlook from a rural perspective specifically, and that we will of course play to that.

Shashank Kanodia: Sir can we share some color on penetration levels for two wheelers in rural vs urban, if you have some?

Ranjivjit Singh: So typically it is about 45% is the penetration and that gives a lot of headroom for growth for us in terms of when you benchmark versus other economies in other countries and that makes it a fertile ground for building out future growth. As Niranjan mentioned in his opening comments also in terms of the India outlook, I believe that will also play an important role in terms of how the industry will perform and within that how well placed we are. So overall it seems like a reasonably good space for us to be in.

Shashank Kanodia: Sure Sir thank you so much and wish you all the best.

Moderator: Thank you. The next question is from the line of Jay Kale from Elara Capital. Please go ahead.

Jay Kale: Thanks for taking my question. Sir my first question is regarding the first time buyers and replacement buyers trend that you are seeing. In the last one or two years, have you seen a lot of replacement buyers kind of postponing their purchases and in the recent festive event recent marriages that you are speaking of, are you seeing that coming back and also if you could throw some color on what used to be the typical replacement cycle, how has that got elongated to and how do you expect it going forward?

Ranjivjit Singh: Overall I think the market is looking and we are pleased to see the recovery coming back into the market after a hiatus of last two to three years. It was really affected by COVID, so overall volumes are coming back in the industry. The first time buyers are coming back. Replacement is where also people who had delayed their decision in terms of the need to replace the vehicles, that second hand used vehicle market is also quite buoyant right now. We are driving a lot of initiatives to enable people to be able to exchange their bikes through the DIY kind of app that is available now on everyone's mobile phone. They can get a quote from Hero for their old bike through the broker system and it is the first time phygital kind of thing that anyone in the industry has come up with and it makes it really easy for someone to get an evaluation, go and then exchange the bike and buy a new one. We also have Hero Sure outlets which are helping people to buy a refurbished bike or even a new bike and I think these are the things that will really help drive the replacement demand. There is a fairly good double digit replacement buying around 20% in terms of the customers that are out there and these are good opportunities for a leader brand like Hero to be able to help consumers make their move.

Jay Kale: Understood and just on the scooter demand, it seems last few months scooter demand coming back probably because of opening up of schools and colleges. Now going forward, how do you expect this scooterization trend, do you expect it to kind of largely pan and this I am talking about ex of EVs, and ICE scooters, to kind of stabilize at that 30% to 33% range or you expect that there is further room of increasing this contribution for the scooter industry, ICE specifically?

Ranjivjit Singh: Yes great question. I think we have also seen that the overall industry for the scooter demand has been going up. We have been strengthening our position. We grew our market share from 6% to 9% already and with the launch of Xoom and the launch of the portfolio as we go forward, we will be further strengthening it. What is underlying this is obviously a multi-utility kind of a vehicle as well as very much the sporty needs and the more thrilling needs that people have to go out for that exciting ride over the weekends or even you do the night rides with better lighting systems that we have provided in our scooters. So we see the growth of the scooter industry, it shown a very resilient growth and we see no reason for it to change. We think it will continue and we are in terms of our portfolio well placed to take advantage of that.

Niranjan Gupta: Having said that, like what Ranjivjit said, overall if you look at on a very big picture perspective, over the last three to four years while quarter-on-quarter the share of scooter versus overall has shifted down and up, but it remains between 30% to 35% range as a scooter versus overall two wheelers. We do expect it to remain within that range moving forward as well.

Jay Kale: That is helpful. Thank you and all the best.

Moderator: Thank you. Ladies and gentlemen that was the last question for today. I now hand the conference over to the management for closing comments.

Umang Khurana: Thank you everyone. Thanks for coming in. Have a lovely day ahead and look forward to speaking to you soon. Bye!

Moderator: Thank you. On behalf of PhillipCapital India Private Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.