



“Hero MotoCorp Limited Q2 FY2024 Earnings Conference Call”

November 02, 2023



Management :



Mr. Niranjan Gupta
Chief Executive Officer



Mr. Ranjivjit Singh
Chief Business Officer – India BU



Mr. Swadesh Srivastava
Chief Business Officer-
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Moderator: Ladies and gentlemen, good day and welcome to the Hero MotoCorp Limited Q2 FY2024 earnings conference call hosted by Antique Stock Broking. 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 “*” and then “0” on your touchtone phone. Please note that this conference is being recorded. I now handover the conference over to Mr. Varun Baxi from Antique Stock Broking. Thank you and over to you, Mr. Baxi.

Umang Khurana: Let me take it up. Thanks so much Varun for hosting us, Antique for hosting us. Hello and welcome everyone to the Hero MotoCorp investor call. It is a lovely season, the festive and those of us who also follow cricket, it is just the right time to be. To talk about the quarter and the festive, we have with us the management today Niranjan Gupta, Chief Executive Officer; Ranjivjit Singh, Chief Business Officer - India Business; and Swadesh, Chief Business Officer - EMBU. As usual, we will begin with opening comments from Niranjan. Niranjan, over to you.

Niranjan Gupta: Thanks Umang. Welcome everyone to Hero MotoCorp’s Q2 Earning Conference Call. Good afternoon, good evening depending on which part of the world you are joining from and greetings for the festive as it is a festive season across India. You would have seen our results announced yesterday. Happy to report we delivered a revenue of ₹9,445 Crores with our margins of 14.1%, which was up 260 basis point year-on-year basis. We delivered net profit of ₹1,054 Crores with a growth of 47%.

The results, they reflect continued financial discipline which we have been known for and of course the judicious capital allocation along with continued investment behind growth priorities. Of course, the current margin shape provides even more headroom to deploy behind our strategic priorities that we have outlined earlier as well. Our ‘Win in Premium’ journey has started off very well. We have been talking about this, our strategy to address this on all fronts - product, portfolio, place, price and promotion. As you would have seen on 15th October, we started the Harley-Davidson X440 deliveries across 100 stores all over India. We have delivered more than 2,000 so far. We are seeing good trends in the bookings on the second window, we already seen more than 2,000 bookings. So it still leaves our order book at 25,000+ as earlier. The supplies are getting augmented as we speak. We expect to service the current orders over the next around four months or so, and of course as the supplies get augmented, we will be able to fulfill these orders even faster as we move forward.

Karizma again, we delighted to note the booking at 14,000. We did close the booking window and as the supplies augment, we will open the booking second window again soon. That is about the product, we are addressing the place, the stores part of it, very rapidly as well. We launched our first ever Premia store, premium store for Hero, just a few days back, and we are going to scale up rapidly. Over the next six months, we will get to 100+ stores. Similarly,



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the facelift of our current stores is on a very rapid path, from 20 in March we are now at 200+ Hero 2.0 stores just in 7 months - almost upgrading at the rate of one store per day, and we plan to get to 500 in the next six months. It is a huge upgrade and a rapid scale up. Not just physically brick-and-mortar structures but we are addressing the digital journey as well because the premium customer, the experience you provide is more a complete all-round phygital journey and not just a physical part. So we have done a complete revamp of our product website, our customer journey, one app, etc. There is a lot of work happening on the digital front as well and of course last but not the least, the full revamp of service also is on the cards on the premium part of it. There will be more models along the way, as you said, part of a portfolio strategy. Already we have got four to five models in market, there will be more over the next four to six quarters as part of our strategy to have full portfolio, very very confident, we are very confident on our premium journey. On the EV front, we continue to expand the number of cities and dealers along with the charging infrastructure gearing towards a volume scale up over the next four to six quarters.

That is on the business front broadly picking up couple of highlights on that where we are focusing on. As far as economy is concerned, we know about the global geopolitical issues that are going on, however Indian economy continues to be resilient and is one of the fastest growing major economies in the world. All the indicators are in the positive direction and in fact very strong consumer confidence index and of course while the monsoon has been patchy in parts, but if you see the Rabi crops have been pretty good as compared to last year.

The festive season has started off very well and overall we do see momentum building on demand side as we move forward. On that festive cheer note, let us open the floor for Q&A. Over to you Umang.

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: Hi, good morning and thank you for taking my questions. My first question is on the electric two-wheeler business. Looks like in the month of October, we have now sort of reached into close to 2,000 units a month sort of run rate there. Just trying to understand going forward where do you see the further inflection points in terms of your electric two-wheeler business build out and any color there in terms of number of cities for the current product as well as any color on supply chain commentary as well, as you sort of try to scale that up would be very helpful.

Niranjan Gupta: I will start off and then I will hand it over to Swadesh who is our Chief Business Officer for EMBU. We had outlined a plan to cover 100+ cities, and we are on track to move towards that. You are right in registering that we have breached a mark of 2,000 but that is just a start. From the production side, we are now clocking more than 1,000 per week in the last three

four weeks and we are going to scale it up continuously as we move forward. More importantly the infrastructure building is happening at the rapid scale whether it is dealers, whether it is cities, whether it is charging, and therefore all of that are getting ready for the takeoff and the scale build up in future. For more color on that, Swadesh over to you.

Swadesh Srivastava: Thank you Niranjan. Thanks for the question. As Niranjan said, we have been expanding quite fast to increase our footprint and we will be reaching those 100 cities very soon. We are also expanding in terms of the way we serve the customers, starting with our experience centers and now being in VI 2.0 as VIDA Corner and also bringing our EV exclusive VIDA dealership starting from Pune. You will see us being present in various formats. In terms of getting our products in the hands of the customers, you saw that in October the numbers are going up and we just see that this is going to go up and up from here onwards as we are present in all these cities. Everything else in terms of our ecosystem, in terms of our production, and the product acceptance, it is on the right track for us to get to leadership in the coming quarters.

Chandramouli Muthiah: Got it that is helpful. My second question is just on how we are managing the margin in the business. It appears that the industry is in a slightly more favorable raw material environment, but Hero has been able to take more price hikes than maybe competition has been able to take and it appears that some of those benefits are being reinvested into the business, which is potentially why the margin is slightly more flattish versus maybe some of the peers over the past few quarters. Just trying to understand thought process around the various gives and takes, and also your thought process on further price hikes potentially going forward.

Niranjan Gupta: As far as our margins are concerned, while we say the industry has been on a favorable mode, actually if you take it back to three years or four years back, the industry has been hit by the commodity cost rise and sensibly enough in order to ensure that the customers are not getting adversely impacted hugely, what happened was the industry actually absorbed part of that in the margins and we have been talking about that and that recovery has happened. So that is where the margins have come back to the platform which it was, as our guidance has always been to be in the tram line of 14% to 16%. Price hikes, no, actually we have not been taking price hikes higher than industry. All our product positioning, all our price positioning have been broadly in line with where it was and therefore that has been again a very sensible pricing plan that we have had. What this now allows, of course, the margin shape and of course as we move forward the operating leverage will further kick in, but this will allow this to be deployed even more towards the big launches that we have been doing and are going to scale up, whether it a premium or the EV business or digital, any other growth priorities that we have. We want to double down on those and deploy money behind those, so this is how we are going to leverage this to actually fuel our growth.

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



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

Jinesh Gandhi: Congrats on good numbers. Quickly on the festive season, how it has started, what has been the industry growth, how Hero has grown during this initial part of the festive season? Can you throw some light on that?

Ranjivjit Singh: Quarter 2 is all about preparing for the festival season, and we have prepared well. We anticipated a good bounce back of demand, and we have actually worked on our strategies across the portfolio. So Niranjn already spoke to you in the last quarter about 'Grow the core' and grow the core for us really means growing the market and we put our best foot forward to inspire and invite the Entry-level consumers to come into the market and that is working very well for us. At the entry level HF Deluxe is doing well, that is itself in double digit growth. We are also seeing that the rural demand has picked up quite well, and that is always a good news for this industry when rural also kicks in. So we have seen that in the first 17 days of the festival.

Then you move into some of the new product introductions that we have done like Passion, which is a very loved million units a year kind of a brand, that form factor, that styling has definitely hit a home run, so it is doing very, very well in terms of the growth - it is at 2.5x in terms of the retail from a Passion family compared to what it was last year, so that is also expanding the market and inviting more and more people to participate. In addition to that, we have also brought in the 125cc and strengthened our portfolio with Glamour Classic, that has also taken out very well and this is significant because markets like AP, Telangana and East where Glamour has been very, very popular in the past and that form factor is coming back, and coming back very well again. We are seeing the growth to be very sort of spread out for example Rajasthan is leading the growth, central zone is doing really well, we have also got North kicking in very well, and South doing extremely well, East back on the growth path. Portfolio is what is one part of it, then all the other enablers that we put into the market really, the consumer demand fulfilling that, the sales training, even the retail finance that we put in, all of that is helping us to get to a double digit growth that we are seeing in the first 17 days of the festival. So we are looking forward to a good festival season.

Jinesh Gandhi: When we see double digit growth that is for Hero's portfolio, not the industry?

Ranjivjit Singh: Well, I am speaking for the Hero portfolio definitely.

Jinesh Gandhi: Industry also would be similar growth or would it be fair to say?



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Ranjivjit Singh: I believe the industry is also doing quite well, although I would say that there is a lot more that we are doing in expanding the market and therefore I think we are on a strong wicket here.

Niranjan Gupta: In think Ranjivjit, overall so far we have grown by 15% on the retail. Just in case you do not take double digit at 99% growth.

Jinesh Gandhi: In that context, even the 100cc portfolio which was the worst impacted for last three, four years, that is also showing signs of recovery that is quite encouraging. Great.

Second question pertains to the margin expansion which we have seen in this quarter. Would it be fair to say there was some residual benefit of commodity price correction which got reflected in 2Q and from year on, there should be stability on the commodity price side.

Niranjan Gupta: Yes, we would expect, I mean, as you know and I just mentioned earlier as well that I would not call it a windfall gain or something for the industry. It is just a recovery of margins because industry had not passed on the cost escalation inflation that had happened and now we are back to a regime where the recovery of the price versus the cost have done a catch up game, and therefore they are matching. So you are back to the even which you were earlier. Moving forward nobody can forecast the commodities, I mean, I have been saying this earlier as well. We have just got to navigate the path and of course world continues to surprise us. But, right now as you said the catch up game has happened, we are in a good space from a P&L shape point of view to deploy behind our growth priorities.

Jinesh Gandhi: Got it, and the last question on the EV side: What kind of order book do we have for EV given that we are already producing 1,000 units a month? Do we have order book number for that?

Niranjan Gupta: EV, we are more focusing on, as I said I would not give a volume guidance right now, but the point is that we are steadily on the path to create the right infrastructure where there is a number of cities, if you remember we are in three cities by March and we are aiming to complete 100 cities by end of this calendar year. We are well on our track, the number of dealers that we are opening may be 100+, soon all of them will have stocks as well and the production is getting ramped up, charging infrastructure is getting built. So I think on all fronts there is a lot of work happening in actually making sure that the buildup happens and of course numbers will follow.

Jinesh Gandhi: Got it, great. All the best, I will come back in queue.

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



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Kapil Singh:

Good morning sir and festive greetings to you and the team. I just wanted your thoughts on the evolution of industry in the 100cc and 125cc segments. Are you thinking structurally the growth for 125cc will continue to remain higher, and how are you planning for your product cycle or do you think 100cc segment which is shrunk quite a bit could make a strong comeback, and we can talk about next two to three-year kind of outlook here.

Niranjan Gupta:

See again, I go back to what we have said, it was three to four years back Umang, when we were talking about this, that India is always a story of many Indias. So therefore it is not like one segment is eating into another segment. There is a class of customers which want affordable product at a certain price that is the entry segment, there is a class of product which want more upgraded product and then there are customers who are more aspirational and wanting premium product in terms of that. So it is not one segment eating into another, it is just that the different customer segments have taken a different period of time Post-COVID to come back to growth and if you look at this across the categories, the premium segment has come back to growth much faster, which has been followed now by the middle segment and of course the affordable which is the bottom of pyramid will follow soon given a lot of Capex, infrastructure program, the development, all that is happening.

Therefore, the income level, employment level as they rise, that class of customers will also start participating more and more. It is not about one segment at the cost of the other, it is just a recovery in different segments have been happening at different periods of time. It is heartening to see that middle and the upper segment recovering already recovered and at the entry segment which will recover soon. Over to you Ranjivjit for any more colors on this.

Ranjivjit Singh:

The 100cc segment, the entry segment, when you look at it, it is really about inviting first-time buyers and the two-wheeler penetration in the country still has huge headroom for growth - it is under 50% and personal mobility continues to be a very basic need, a big requirement and that is something that as leaders and as a brand like Hero we take it upon ourselves to see how do we help the consumer with the kind of value propositions that we put into the market, with the kind of value that they find in our products and be able to build that segment. So that is seeing a bounce back and I believe that consumers will at times like this trust brands, which have been around, that have a service orientation, that have the facility widespread across the country, all of those things will work towards our favor, and we will continue to work to strengthen that. As far as the 125cc is concerned, it draws from both sides, from the 100cc as well as from the 150, 160cc, it is source of business and we are seeing that there is a power there that is coming in and we are very well geared towards even the launches that we have done which I talked about and the future launches that we are going to be doing will further strengthen our position in the 125cc and premium we have already looked at in terms of our portfolio and the launches you have already been witnessed to. Across the board, we are seeing strengthening of our portfolio and also taking on the role to expand the market.

Kapil Singh: Sure, thanks for the detailed answer. Second, I just wanted to check on margins. Now last quarter, we mentioned that there was kind of 70 bps drag and ICE margins were higher at about 14.5%. I just wanted color if you could you give us an update where are the ICE margins right now and what I am trying to understand is as we move forward and we ramp up EVs, how would the margin evolution look like. Do you think that can cause some drag on the margins or you have enough levers in terms of operating leverage and cost reduction for EVs where this drag will not be there? Just some direction over there would be helpful.

Niranjn Gupta: Right now, as far as Q2 is concerned, the ICE margins are close to around 15% and around 90 bps is what is deployed behind EV. As we move forward what will happen is that, and you are right, so the commodity cost or the BOM cost, now let us talk the commodity cost, the BOM cost reduction journey is well on the way as far as EV is concerned. So that is going to help as we scale up and as we reduce the BOM cost in terms of intrinsically improving that and while deploying that back in building up the scale. I would say broadly around 100 basis point is something that one can factor in, in terms of moving and Q2 was 90 basis points anyway which was deployed.

Kapil Singh: Just to clarify the EVs are still on the Gross Profit basis, are we profitable at this point?

Niranjn Gupta: No, not really, but as all of the entire industry is working on the BOM cost reductions on products which are engineered differently, so we move forward to that. Right now it is a nascent stage, I think the more focus is honestly on building the category, building the right product portfolio across in terms of putting that right cost structures. Margins will follow, but right now we would not be too worried about the margin structure on the industry basis.

Kapil Singh: Thank you so much sir and best wishes.

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

Gunjan Prithyani: Thanks team for taking my question. My first question is on this Ather investment that we made during the quarter. Anything that you can share with respect to where we are on the stake now and also incrementally how should we sort of think about this investment, any strategic synergies to be drawn with the way now we are starting to scale up our EV business, so some color around Ather investment.

Niranjn Gupta: The Ather stake right now what we have is 37.5% and of course as you already have seen there are synergies that we are working on, maybe, I will ask Swadesh to talk about what we have done on the charging plan, also on the standardization of the chargers - couple of points that you can mention.

Swadesh Srivastava: Hi, we are definitely leveraging the partnership we have with Ather for example this two-wheeler fast charger connector which we jointly have between Ather and VIDA - that has become the standard in the industry and we expect that more and more OEMs will adopt that. So that will not only help build the category, it also brings customer ease across the board. We definitely continue to look for other opportunities, whether it is supply chain or other areas, so that we can help together build the EV category in India.

Gunjan Prithyani: Is there a thought process to have a similar front end as well, maybe there are experience centers that Ather have and your distribution is of course very sizable in their respect. Is that something which is also part of the strategic decision making while you look at leveraging the portfolio?

Niranjan Gupta: I would say one step at a time, I think Ather continues to build excellent products, they are building excellent experience centers, the company is doing well, the product portfolio is well known for its premium aspirational image, so whenever we see that it is the common synergies that both companies can leverage, and therefore benefits the shareholders, both the companies continue to discuss on those fronts.

Gunjan Prithyani: My second question is on the product lineup. I mean, of course you have been speaking a lot about so many launches coming through. Can you give us little bit more color on incrementally next 6 to 12 months, where should we expect launches and I am more keenly focused on this 125cc segment, I mean, clearly Glamour and Passion have seen some uptick over the last 3 months. How should this segment sort of scale up for Hero because it has been historically pretty sizable right, I mean you mentioned about a million each of these models used to have, so a little bit more color in terms of model intervention and how do we see these two models scaling up over the next 12-18 months?

Niranjan Gupta: As far as 125cc is concerned, already there are some actions that have been taken, as you know Super Splendor XTEC which was launched at the beginning of this calendar year and then Glamour which has got revamped, so all of these will translate into higher volumes as we move forward over the next few quarters. Of course, we are looking at further augmenting this segment with another model timelines, we cannot talk about right now, but that is something that will come up by probably in quarter four, and the other launches which we have been talking about more and more on the premium side, you will see the launches over the next four to six quarters.

The focus is on the 125cc, on the premium to some of the new launches and of course some action on scooters also you will see. So you will see the lineup coming up. We will keep everyone excited every quarter, that much we can promise.

Gunjan Prithyani: Okay. Lastly, if you can share the channel stock number and I will join back the queue.



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Ranjivjit Singh: Yes, this is like I said we prepared really well for the festival to make sure that in our widest distribution of 6,000 touch points they have the adequate demand fulfillment possibilities and so when we come to the end of the festival, we will be back to 4 to 6 weeks of inventory.

Gunjan Prithyani: Okay, got it. Thank you so much.

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

Raghunandhan: Thank you for the opportunity, congratulations on good set of numbers. Firstly, given the strong response for Harley and Karizma brands, how are you looking at the production ramp up for these models in coming quarters? Secondly, in terms of 125cc, just following up again there, within 125cc the premium category has been doing very well that is price point of about ₹90,000 ex-showroom and we have XTEC which is benefitting in that category, but should we expect more launches like Xtreme 125cc in coming quarters and there have been lot of spy shots also in the media.

Niranjan Gupta: As far as Harley is concerned, yes glad to note that we are very happy to see the response to H-D X440 as well as Karizma. As I mentioned in my opening note, the current bookings probably, we will be able to serve over the next four months. Our supply chain is already in fact 3 - 4 months back, they started ramping up the capacity. So we will be ramping up capacity. At this stage I would not be giving out any number, but we will be ramping up capacity because we see very high level of bookings and then we sort to closing the bookings at different points in time.

On the 125cc, I will ask Ranjivjit to talk about the XTEC and how these have been doing and of course they have more excitement in this segment as well.

Ranjivjit Singh: Super Splendor XTEC was introduced in the beginning of the calendar and really helped, I mean, when you look at the uptake that it had not only its core markets of UP and West Bengal etc., but also across the country. So it really got a national footprint thanks to the tech upgrade which that segment of consumers really looking for. The LED headlamps, the USB, all the other functionalities in terms of connect, all of that has helped, then when we look at Glamour XTEC that continues to be there, but as we are going forward we are also working on something which Niranjan talked about and so as we coming into the quarter four, we should see some excitement here coming from Hero to address the segment needs of that power packed and tech advanced kind of portfolio. We are very excited about what we are going to be introducing.

Raghunandhan: Thank you Ranjivjit. Just a clarification, how would be the XTEC share within Super Splendor and Glamour?

- Ranjivjit Singh:** XTEC is 22%, around 20%, overall it is for the XTEC family is 1/3rd around that much, and it goes across Glamour, Splendor, Super Splendor, Passion, Destini, Pleasure, Xoom, all of them have XTEC. These are the ones that a little bit more tech advanced they have what have a clear competitive differentiation and just for a little bit more, which the consumer is happy to pay the premium, then they get all these extra functionalities like I said about Bluetooth connectivity, the USB charger, low fuel indicator, etc. All of these things are very much for the younger generation, are very preferred.
- Nirajan Gupta:** In fact, like you picked up rightly, what this is doing the XTEC is actually just along with premium; our journey on premiumization also has been equal focus as far as the rest of the categories are concerned.
- Raghunandhan:** Thank you very much. Lastly can you share the spares number, if you have it handy?
- Ranjivjit Singh:** Yes, so we had a really good quarter in terms of the parts, accessories and merchandise business. Over ₹1,300 Crores, ₹1,354 Crores to be exact which is a double digit growth over last year. The growth is coming across all parts, it is coming from the parts business from oil, some of the new additions in terms of tyres, all of that is working well. We are working on our strategy to continue to expand at distribution, so that continues well in terms of number of retailers that we cater to, the number of parts distributors and through our super stockiest channel. We also are getting more and more extraction from each of these retailers, so that continues to be a key growth driver for us and overall it is a business that is coming in a really strong and good growth. It continues to do well.
- Raghunandhan:** Thank you so much, all the best. I will get back to the queue.
- Nirajan Gupta:** In fact, just to add Ranjivjit on that, it will be good to let people also know that October month, which we have just finished, we have clocked ₹500 Crores revenue from PAM business for the month - it is highest ever.
- Ranjivjit Singh:** That's true.
- Raghunandhan:** Thank you.
- Moderator:** Thank you. The next question is from the line of Praveen Motwani from BOI Mutual Funds. Please go ahead, sir.
- I think he has got disconnected.
- Umang Khurana:** Why don't we take up Binay next and the moment Praveen comes in, let us take him in.

Moderator: Sure. Mr. Binay Singh, go ahead.

I think even Binay has dropped. I will take the next question. The next question is from the line of Mr. Pramod Amthe from Incred. Please go ahead, sir.

Pramod Amthe: Thanks for the opportunity. The first question is with regard to the Passion. The way it has bounced back looks impressive. Would you give us some color in terms of, within that sub-segment, what market share it has been able to achieve and what has been the cannibalization for some other brands of your own?

Ranjivjit Singh: It is an overall growth story that we have got on Passion. I think the market was really looking forward to this form factor, this brand to come in. There was a lot of belief and love for this brand and so it bounced back extremely well and the growth is over 2x in terms of that, and that really helps the overall 100cc segment to grow, and no it is not come at the cost of any other brand at least within our portfolio and that is because a lot of the extra coverage that we have got in markets, where for example I was talking about south or east, Passion was at one time a big contributor to the overall volumes and revenues of our dealers and coming back it has only augmented and increased the amount of business that it has generated for it.

Splendor continues to do extremely well, always we are delighted with this power brand that we have and of course HF, like I mentioned to you, has also grown in double digits thanks to the very strong rural uptick that we are seeing during this Festival season, and I must say this that our focus is on expanding the market here, and so in a way we are really bucking the trend. We are doing very interesting rural activations that are inviting our consumers to participate during this time, and I think that is some something that probably no other industry player is doing, so we are quite happy with the way the teams are executing on this strategy.

Pramod Amthe: It is also the existing customers of Hero long back, they are upgrading towards Passion or these are the new customers who are?

Ranjivjit Singh: You are absolutely right. There are a lot of customers who are holding on, last many years they were holding on, to their Passion because they were just, so it is a question of love that is why our campaign was also about first love and they have come back, but not only that I think there are many first time buyers as we see as well. It is coming back exchanging and we have a very robust and good exchange business that is also showing tremendous growth, so we are also stimulating that and we have done that with passion, we have done that with Glamour, there is a pretty good installed base that we have that our customers come back to us, they get the exchange bonus they are able to do all that, we have got Hero Sure outlets, we have got the Wheels of Trust, Do It Yourself app that from wherever you are you can get an evaluation of your current two-wheeler and in seconds you get that, you literally walk into a Hero showroom, a dealership and you also get brokers to participate and give you the best



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possible deal for your previous older vehicle and exchange for a new one. It is a very comprehensive strategy that we have got to expand the market and that is what we are working on.

Pramod Amthe: Second question is with regard to the scooter exports, which also seems to be again coming back in a big way. So which markets are these which are driving this and also what is the runway, any thoughts? Is it more driven by the new products you introduced those markets or can you give some color and some medium-term targets there for specifically scooters.

Niranjan Gupta: I guess we will address this in overall global business volume, not in terms of scooter or the other parts of it. Quarter 2 we had 52,500 volumes which sequentially is a very good growth because quarter 1 was only 35,000. So, yes the markets are coming back in part and we are looking at further scaling up of these volumes in second half.

Pramod Amthe: Sure thanks and all the best.

Moderator: Thank you, the next question is from the line of Praveen Motwani from BOI Mutual Funds. Please go ahead.

Praveen Motwani: Hi Team, thanks for the opportunity. My first question is what is our production capacity for Harley-Davidson X440 and how do we see the ramp up over the next couple of quarters.

Niranjan Gupta: As I mentioned earlier that our current number of bookings that we have, we aim to serve them over the next four months and the supply capacities are getting augmented for both Harley and Karizma and we will see that coming up higher capacities in Quarter 4 of this year.

Praveen Motwani: Any indication that what would be the production capacity number, to understand our stand to address the demand that we will get for this product?

Niranjan Gupta: Partway between Harley and Karizma, we are looking at to ramp up in the stage one to around 10,000 per month and probably we could look at augmenting that even further as we move forward.

Praveen Motwani: 10,000 per month, okay and can you just also elaborate on the profitability front specific to the Harley-Davidson, that would be really helpful.

Niranjan Gupta: The profitability in this segment is quite good and it builds us with the scale. Right now our focus is on ensuring that we win in this premium journey and scale up and get to meaningful market share in every segment of the premium category.



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As we build premium portfolio, it allows us to further expand our PAM business more specifically on the merchandise part of it and therefore that is something that in future we will see as an additional revenue stream coming through.

Praveen Motwani: When you talk about the better profitability in this specific thing, can I assume that it would be better than the blended margins that we are doing right now.

Niranjan Gupta: I would not get into more specifics here, but I think the portfolio shape will improve from a margin perspective as we move forward. Right now, our singular focus is building the share in the premium segment across each of these segments within premium itself.

Praveen Motwani: Understood, thanks a lot and all the best.

Moderator: Thank you. The next question is from the line of Shree Kirloskar from BOB Capital Market Limited. Go ahead.

Shree Kirloskar: Thank you for the opportunity. My first question is on the balance sheet. The receivables have gone up sharply to around ₹4,300 Crores. So, any color on that, what's driving the growth?

Umang Khurana: We couldn't hear you well. Could you repeat yourself, please.

Shree Kirloskar: My first question is on the balance sheet part our receivables have gone up sharply, so any color on that on what is driving the growth there?

Niranjan Gupta: Well, that is the usual bit that happens during Festive season because as the stock builds up and that happens across the industry. We do provide extended credit to our dealers which gets then wind down by the end of the festival. Nothing unusual on the trade receivables part.

Shree Kirloskar: My second question is on the volumes. You have been doing pretty well on the volume parts for, especially on the motorcycle segment, is this something we are seeing as part of a pent up demand which is going on or the normal streamline one?

Ranjivjit Singh: Yes, I think there is a little bit of seasonality here as well. When you look at the way we are shaping our portfolio, bringing in of course the volumes are going up and the trend that we are seeing is pretty positive for the festival season as we get into Q4 then also and pretty much from November onwards we will see the marriage season kicking in, so there also the demand is going to be positive. So we see that the trend for at least our portfolio is continuing to be robust and strong.

Shree Kirloskar: Okay understood, thank you so much.

- Moderator:** Thank you. The next question is from the line of Hitesh Goel from CLSA. Please go ahead.
- Hitesh Goel:** Thanks for taking my question. My question is on the Gross Margin. If I look at on Q-o-Q basis, you have taken a 1.5% price increase, but the gross margin expanded by 80 basis point. There is also precious metals have gone down quite a lot, right I do not know what is the proportion in your portfolio, can you specify that because most of the companies are have got some RM benefits as well. Can you just break it down on the Gross Margin side for us?
- Niranjan Gupta:** We look at overall shape of the margins rather than the by elements, and I would broadly cover without getting into each component, that the benefits have accrued from obviously the catch up between price and the commodities, there is part of the leap savings that we continue to drive, there is also the mix impact because as we have seen the 125cc, the dealers whose growth have been higher than the entry segment overall is a composition, and therefore there is a mix benefit as well. There is a combination of all of that, that has actually helped in terms of getting the margin, and of course when you look at some bit of operating leverage as well. So it is a combination of all that which has resulted into the EBITDA margin. I would not get into each component wise, honestly which contributes.
- Hitesh Goel:** Just a follow up on the other expenses, we have seen strong increase. Is it because of the launches Harley launch or something that the expenses have been higher or this is the recurring kind of rate we should assume?
- Niranjan Gupta:** As I have been saying other expenses we should always look at a rolling four quarter basis and that is the best way to look at because quarter wise based on the launches we will always have an uptick and of course the margin shape that we have, which is why I keep going back to the overall margin shape, it allows then us to deploy more and more behind the launches whether it is a Harley launch or whether it is Karizma launch and there will be more launches to follow. We will have that trajectory behind those which is the right investment for growth.
- Hitesh Goel:** Great thanks.
- Moderator:** Thank you. The next question is from the line of Mr. Pramod Kumar from UBS. Please go ahead, sir.
- Pramod Kumar:** Thanks a lot for the opportunity. Two questions, one is a clarification on the receivables. Normally, these kind of receivables also generate interest income right, it is not like you are going to be funding or extending credit for a limited period without any interest cost, interest for the dealer is that understanding right?



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Niranjan Gupta: It is part of the entire extension of credit that we do and the interest is only if it becomes overdue so that is the usual bit that happens. It is just that we allow extended credits during this period of time.

Pramod Kumar: Where do you recognize if there is overdue and there is interest which is kind of you receive from the dealer. Where exactly that, does it come in the other income?

Niranjan Gupta: Yes, beyond the due period which again it gets into the other income you are right. That is not a big portion of the other income which you see.

Pramod Kumar: Yes, that is good to hear. On the EV side, because what you are seeing is the demand continues to be pretty resilient even in the festive season EVs are holding a 5% volume share which is pretty encouraging, which probably points to increasing adoption of EVs even in the rural and the festive markets and given the fact that you have a really differentiated product, because if you look at all the other major players they have a handicap where the battery is a fixed one and you are the only one amongst all the leading players who have a differentiated product approach and honestly which should give you a very good right to win, but I am just trying to understand what is kind of, is it supply chain which is constraining you because otherwise with this kind of a product the proposition where you are really taking charging out of the equation altogether practically, the constraints around charging. So why are we not seeing a much sharper surge in volumes or what am I missing here because this is something really differentiated versus everyone else in the market.

Niranjan Gupta: You are absolutely right. I am glad that you picked this up that the product is differentiated, it is being marketed as a very differentiated marketing proposition as you would have seen, the creatives, on the place part of it also we have advantage given that we can leverage the Hero distribution network which we have started leveraging plus of course exclusive stores which actually are now coming more and more on ground, which is the VIDA Hub that we talk about which will bring the imagery part of it. All of these are right ingredients in place. It is only a question of time when we actually put out the scale as we said that, as of the last two weeks we already started producing at 1,000 per week and of course as we move forward, we will continue to ramp it up. It is important to get the ingredients right which you are rightly saying, and then there after the scale up is only just a function of time. Swadesh, you want to add just couple of points on that?

Swadesh Srivastava: No, Pramod you have picked up the right USPs and in fact that is where the answer lies as well that we are very confident about this product and the customer feedback is very, very positive. It is our responsibility to make sure that we set up the right ecosystem, the foundation for growth and all the support structure which the customer needs once they own the product. We are building all of that, we know that we have a well differentiated product we have the

best range, removable battery, charging infrastructure, differentiated connected features, so we know that we are going to be ramping up volumes very fast.

Niranjan Gupta: It is very important that at the initial stage one does not get too perturbed about how much volume you are selling 1,000 - 2,000 it is important to build the right infrastructure in place plus in fiscal year 2025 we got to expand portfolio in terms of price points. So they will be made and then more affordable price point, affordable but not cheap product, the product will still be a class in itself that is where the focus will be and with all this we will obviously see a scale up happening, not worried about that.

Pramod Kumar: Great thanks a lot, seasons greeting, and best of luck. Thank you.

Niranjan Gupta: Well thanks, seasons greetings to you as well and everyone.

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

Mumuksh Mandlesha: Thank you for the opportunity sir and happy festive season to the management. Can you provide update on the export volumes expectations ahead as the demand is gradually improving and can you indicate which are the major countries contributing to export volumes and how you seeing the currency availability in those markets?

Niranjan Gupta: For us obviously the top few markets, whether it is Bangladesh, whether it is Colombia and then of course in the prospective markets we have Nigeria, we have Mexico, we have got Turkey, of course in Nepal we have had some disturbances on volume. So these are the markets where we will see volumes in terms of moving forward. Our quarter 2 sequentially has been good, second half we expect the volumes to also pick up. Having said that we know that world is also going through geopolitical issues, so we need to watch this space, but we will be building up the global business gradually, so we are more looking at medium to long-term point of view.

Mumuksh Mandlesha: Got it sir and as you mentioned earlier that the entry buyers are coming back to the market and the earlier used to be like a 75% of the Hero demand used to become entry buyers that have fallen to 60%, so how was that change, if you can indicate sir?

Ranjivjit Singh: Yes, so entry is definitely has a good uptake, I am not sure about the 75%-60% that you are referring to, but typically the urban rural split has been a little bit more in favor of urban in the last couple of years. Now during this time when we look at the source of business of the festival season, it is evened out and that is really a very good trend for us to see that rural is also participating and I believe that they have confidence in HF Deluxe and the proposition that we have there with the financing schemes, with the activations that we have done in the



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rural markets, so I think it is seeing a good uptick and it augers well for the overall festival demand and the results that we are seeing so far.

Mumuksh Mandlesha: Thank you so much.

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

Jyoti Singh: Thank you for the opportunity. My question is on the Capex side. Are we still adhering to the previously guided Capex that is 1,000 Crores or have there been any changes in that regard?

Niranjan Gupta: Yes, we are sticking to the same guidance and as we had mentioned earlier while we continue to, the point is that the shaping of the capital allocation is moving more towards Premium, EV, premiumization, but the overall capital guidance remains the same.

Jyoti Singh: Okay, great sir. My second question on that voluntary retirement side, like we incurred approximately ₹160 Crores last quarter. Can you please provide an update for this quarter?

Niranjan Gupta: That is closed. That was closed and done with and the numbers were factored in quarter 1.

Jyoti Singh: Okay, thank you so much.

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

Kapil Singh: Just one follow-up. On the battery technology that we are going to use going ahead, do you think that this swappable battery is the way forward given the conviction you have or the feedback you have or going ahead we will be investing in fixed battery kind of solutions also? If you could you just compare and contrast the advantages and disadvantages and where you would invest more energy going ahead.

Niranjan Gupta: What you mean is removable battery versus fixed battery, right?

Kapil Singh: That is right.

Swadesh Srivastava: Yes, as we heard earlier on the call itself, that our removable battery is the major USP and the highly differentiated from other players and products in the market. We continue to see that our customers are heavily using that feature. We see that we will continue to rely on this aspect of our battery, but having said that, I do not think one can tie up to one type of fulfilling the need of range anxiety just by saying it will always be removable. We have to see for each segment what the customer needs are, what the use cases are and we will have to have the right battery for that.

If a certain segment does not require a removable battery and I can give a much simpler product, it depends. So I do not think I would say that one would assume removable battery for all products, but wherever we are present we see the benefit of it in terms of the customer experience.

Kapil Singh: Could you just explain us, like in which use cases do you think the fixed battery works better and is there a higher cost in case of removable, just to help us understand the variable basis which you have taken?

Swadesh Srivastava: There are use cases where the customers have the opportunity to charge very easily the scooter itself or once the fast charging network is available and the speed of charging is to an extent that you do not really need, you can quickly top up 50%-60% of the range required. In those use cases, you do not really need to be available with removable battery. Also when there is a very captive use between point A to point B, very reliable sort of predictable use. We can sort of take this up, it is a longer debate, but as I said there are use cases where you probably do not need the removable battery but as we continue to bring down the cost of the vehicle and the battery and continue to provide the three ways of charging which is the scooter, the battery and the fast charging, we see that it will cover majority of the segments as we go forward. But I do want to say that this is needed to be for 100% of the products.

Kapil Singh: Thank you. That is all from my side.

Moderator: Thank you. We will take the last question from the line of Abhishek from Dolat Capital. Please go ahead.

Abhishek: Thanks for the opportunity. What was the retail number in last festive season for Hero and what is your target for this festive season and how much peak festive season volume for Hero? Do you expect this, you would be able to surpass in this season that numbers?

Niranjan Gupta: Our last year festive season we were around close to 1.2 million for the festive period and as we call that finally the end customer retail, I would not give a target right now we have said that we expect industry to grow double digit and we have already talked about the festive so far we have grown 15%.

Abhishek: Okay and my last question on the scooter segment, we are much behind versus our peers, so what is your plan to regain the market share in scooter segment?

Ranjivjit Singh: Thank you for the question. In the two segments, the 110cc segment was in fact gaining market share thanks to Xoom, Xoom is doing very well. In a number of markets, it has become the number two brand and that is really, really incredible for such a short period of time for the brand to be become so accepted in the market with many industry first like the



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corner bending lights which has got wider tires; it is really got a zippy acceleration so all of that is good. As far as the 125cc segment is concerned, we are in a period of transition as we phase out a couple of products from our Maestro Edge etc., and we bring in some new, we have already brought in Destiny Prime in the 125cc and this is again transitioning into a really good path as we go forward. So 125cc we will continue to strengthen as we go forward, 110cc we have already done some interventions there and overall we will see us growing in this overall scooter market.

Niranjn Gupta: Thank you and happy festive season to everyone.

Umang Khurana: Yes sure. Thank you everyone, thank you for listening to us. We look forward to keeping in touch and enjoy the rest of the year. See you soon.

Moderator: Thank you. On behalf of Antique Stock Broking that concludes this conference. Thank you for joining us and you may now disconnect your lines.