August 20, 2022

Asst. Vice President, Listing Deptt.,
National Stock Exchange of India Ltd.
Exchange Plaza, Plot C-1, Block G,
Bandra Kurla Complex,
Bandra (E),
MUMBAI - 400 051
Scrip Code: HEROMOTOCO

The Secretary,
BSE Limited
25th Floor,
Phiroze Jeejeebhoy Towers,
Dalal Street,
MUMBAI - 400 001
Scrip Code: 500182

Sub: Transcript of Earnings Conference Call for the quarter ended June 30, 2022

Dear Sirs,

Pursuant to the Regulation 30 read with Schedule III of the SEBI (Listing Obligations and Disclosure Requirements), Regulations 2015, please find attached the transcript of earnings conference call for the quarter ended June 30, 2022.

This is for your information and further dissemination.

Thanking you,

For Hero MotoCorp Limited

(Dhiraj Kapoor)
Company Secretary & Compliance Officer

"Hero MotoCorp Limited Q1 FY23 Results Conference Call"

August 13, 2022

ANALYST: **ASHUTOSH TIWARI - EQUIRUS SECURITIES**

MANAGEMENT: **NIRANJAN GUPTA – CHIEF FINANCIAL OFFICER**
RANJIVJIT SINGH – CHIEF GROWTH OFFICER
SWADESH SRIVASTAVA - HEAD OF EMERGING MOBILITY BUSINESS UNIT
UMANG KHURANA – HEAD, INVESTOR RELATIONS & BUSINESS SUPPORT

Michelle: Good morning ladies and gentlemen and welcome to Hero MotoCorp Limited Q1 FY23 Earnings conference call hosted by Equirus Securities. 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 star then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ashutosh Tiwari from Equirus Securities, thank you and over to you sir.

Ashutosh Tiwari: Thank you. Michelle. Hi, good morning, everyone on behalf of Equirus Securities, I welcome all on the Q1 FY23 Earnings call of Hero MotoCorp. I would like to thank the management for giving us the opportunity to host this call. Without further ado, I would like to hand over the call to the Umang Khurana, who is the Head of Investor Relations to introduce management participant, over to you Umang.

Umang Khurana: Thanks, Ashutosh. Thanks for hosting us. It's a pleasure to connect with all of you. And thank you everyone for sharing your weekend with us. As usual, we keep the call for an hour. Today, we have on the call with us, the CFO, Niranjan Gupta, also the Chief Growth Officer Ranjivjit Singh and Swadesh Srivastava, who is the Head of Emerging Mobility Business Unit. Thank you, everyone again for joining us. We'll begin with the CFO’s comments and then start to take questions, over to you Niranjan.

Niranjan Gupta: Thanks Umang. So, welcome to our earnings call. And thanks for taking out time on Saturday. Q1 results as published yesterday, show significant improvement sequentially on the top line, tracking the positive momentum in the industry coupled with gain in market share. We've been able to hold our EBITDA margins versus Q4, the preceding quarter and improving the same on year-on-year basis by around 180 basis points. This shows our focus on both growth as well as profitability as what we have been speaking many times. Parts Accessories & Merchandise business continues to do very well. We delivered INR 1,061 crores in the quarter at 12.6% of revenue. While focusing on building a robust portfolio in premium segment, we have also been doing premiumization of our existing models through Xtec variants, as you have seen through Splendor Xtec, Glamour Xtec, Passion Xtec and Destini Xtec. The demand for these variants is outstripping supplies as of now, as we ramp this up, it should help us in improving market share along with, of course, pricing realization and margins as well.

Let me now talk a bit about macro and micro economic factors and our outlook on industry. The global economy as we all know is facing headwinds of inflation and compulsion of central banks to raise interest rates to tame this, which obviously has an impact on growth. We do expect however, the rate increase cycle to stabilize in a quarter or so. Given all this context, while India is not delinked from global economy; however, it's relatively much better placed whether we look at the currency, whether we look at the interest rates, whether we look at multiple other micro factors like the GST collection or the PMI index or the recently released IIP index. They are all indicators in the positive direction. Coupled with of course, in the short term as you can see, the normal monsoon as we are talking about and crop cycle. So, effectively, when you combine all of these and also combined the consuming base of India, with a lower per capita consumption, it means that the underlying medium term growth prospects are better than most of the countries.

The recent geopolitical issues while they do pose headwinds on one hand, but they also could bring inflows into the country because there are very few countries which are investment destination, like India, and so there are enough positives for us to rely on. We remain positive about the prospects of the economy in general and auto industry in particular. So with that, let me now hand it back for the Q&A.

Michelle: Thank you very much. We will now begin the question and answer session. Anyone who wishes to ask a question may press star and one on your touchtone phone. If you wish to remove yourself from the question queue you may press star and two. Participants are requested to use handsets while asking a question. Ladies and gentlemen we will wait for a moment while the question to assemble.

Mr. Ashutosh Tiwari: Michelle, go on.

Michelle: Okay sir. The first question is from the line of Jinesh Gandhi from Motilal Oswal Financial Services. Please go ahead.

Jinesh Gandhi: Hi, thanks for the opportunity. First question is on the demand environment: can you touch upon how demand is shaping up, especially in context of what we see in terms of the ground level retail trends and in light of our wholesale trends, July was a weak month, there is still undergoing inventory destocking or what it is?

Niranjan Gupta: Right Jinesh, as far as demand environment is concerned, you know, as we spoke about the industry and us, and it's also good to look at this sequentially given all the base effects of pandemic etc., etc. Q1 has been better than Q4, as you have seen, the industry as well as us, in terms of the growth. In Q1 our retails are actually better than wholesale.

That's the second point for you take and as far as Q2 is concerned the entire industry, as you know, now we will build stock moving forward. Yeah, some of the stock build up, you could say it is slower for us, it has been in July than expected because in some of the variants, the chip impacted supply issues. But we are confident that over August, September, we will build for our festive season. So underlying as far as demand is concerned, it is now with the onset of festive, everybody is looking forward to the festive season to get an indicator.

So, as of now, I would say that the momentum is right. And in the right direction, with all the consumption spending, which is happening. Of course, a month here and there could always swing when you get more purchases in a quarter and therefore a month becomes a little soft. So, we are not really concerned about that, Jinesh.

Jinesh Gandhi: Sure, and the chip shortage is primarily for the Xtec variants ?

Niranjan Gupta: Absolutely. As you know, we launched 4 Xtec variants: Glamour, Passion, Splendor, and Destini as well. And the good thing right away is that while on the one side, we have the inflation story across the country and globally. But on the other side, what we are seeing is the moment you launch a premium variant, and all these Xtec variants are at 7 to 10% higher price, the demand for these variants is far more than what we anticipated, as a ratio. So clearly, it means that the consumers are willing to spend, they need to have a reason to spend.

Jinesh Gandhi : Got it. And second question pertains to the iron cost inflation in this quarter. So on the reported basis, there's substantial QoQ impact. But I guess there is some inventory related change impact which is there. But adjusted for that there was about 150 basis from QoQ increase in iron-ore costs. So can you talk about what is actually commodity costs inflation, which we saw in this quarter and the price increases taken in Q1 and Q2 so far? Thanks.

Niranjan Gupta: Yeah, Jinesh. So, I talked about the cost inflation first, and you are right to pick that up. As you know, given our pipeline of supplies, the impact of any cost takes a quarter to manifest. And therefore, if you look at it across the commodities of Q4 in terms of the market index, that is the spike we saw. And then thereafter, of course, now we have seen of late a bit of softening in aluminum and steel. All of these will get reflected in quarters as we move forward. And therefore, we do feel that the overall balance of the commodity basket seems to have peeked off and therefore moving forward stabilization or maybe even coming down depending on when all the rate increase cycles have an impact should be auguring well. As far as price increase is concerned, we took from first April around INR 850 ex-showroom, on first July we have taken around INR 1,200 rupees ex-showroom, which will of course get reflected in the Q2 and the coming quarters as you see. And, of course in the last few quarters, maybe 6-7 quarters we have also been saying is that the price increases have lagged the cost inflation and rightly so.,You want to balance both growth and profitability, but moving forward as the commodity pool stabilizes then we'll have options and the opportunity to move the prices ahead of the cost and therefore, as an industry and opportunity to actually recover some of the lost margins.

Jinesh Gandhi: Got it. Just to clarify the iron ore cost under recovery post July price increase will be broadly taken care of giving the current commodity prices or there are still under recovery?

Niranjan Gupta: So, there are still a bit under recovery, which needs to be recovered. As you know, our margins are at 11.2%. And therefore, at some stage, this needs to come back to around 14% at least, and therefore there will be some recoveries to be made for sure.

Jinesh Gandhi: Got it. Thank you.

Michelle: Thank you. I request to all the participants to limit your questions to two per participant. Should you have a follow up question, please rejoin the queue. Thank you. The next question is on the line of Kumar Rakesh from BNP Paribas, please go ahead.

Kumar Rakesh: Hi team, good morning. And thank you for taking my question. My first question was around your employee headcount. So over the last nine years production, or volume has declined by about 20%. But our employee headcount has increased by close to 50%. And within that last part of it is temporary employees, so more than 70% of our employees are temporary employees. want you to understand why are we keeping such higher number of employees, especially temporary employees?

Niranjan Gupta: Right, so a couple of things. I think, number one is, in our industry, we don't move up or down the employee headcount with the volume and we have seen, when you said the production or the volumes have come down over X number of years. A large part of that is manifestation of the pandemic. If you look aside before pandemic, right, and give us earlier side of BSVI we were doing around 8 million of volumes, right? Pretty much there. So you don't actually take up or take down the employees based on that. And as we all know, pandemic was not just an economic crisis, more than that it was a humanitarian crisis. And we at Hero, we do believe in taking care of the employees, and therefore having them with us; so we did not fire anyone. We in fact, ensure that even contractors and casuals, they also actually get their rightful pay. The solution is to increase the top line, and which is what we are focused on rather than just adjusting the employee. We've been, of course judicious, as far as our employee headcount are concerned. There are certain places that we are scaling it up, like growth priorities or global business, whether it is, you talk about the EV space, so there are spaces where the headcount will go up and we will be judicious in all that. But, I think the solution to all of this, to get the right ratios is to increase the top line which is what we'll be focusing on top line as well as the mix, which is where we are focusing on building our premium portfolio and premiumization of our variants as well.

Kumar Rakesh: And the high temporary employee base should ideally would have given us the flexibility to maneuver inside out headcount based on how the production and demand environment has been and this trend is something which even before COVID impact is something where you’re in higher headcount, despite the volume coming down around BSIV-BSVI transition. Anyway, I will follow up on that later. So, on the Hero FinCorp business. So last fiscal year Hero FinCorp credit cost was about 7% is what I estimate, based on numbers disclosed. We have gone for another round of funding in the business this quarter. But that 7% credit cost for a business because a yield of about 14%-15% doesn't look sustainable. So while going for investment in this round have we set any target to lower these high credit costs or we are okay with these numbers?

Niranjan Gupta: There is a target for the funding round. There is a target for growth at the AUM level. And as we all know that the finance penetration, the scope for growth of NBFC is huge. And as growth comes back FinCorp will have its opportunity to grow the asset base. So that's where the amount will get invested in. As far as credit cost is concerned, I won't say we are comfortable with that credit cost. I think FinCorp team is working on bringing back down from let's say 7%-7.5% to probably 5%-5.5%. So that's the endeavor to bring down over the next 4-6 quarters, so that the ROA and the ROE improves, moving forward over the next 6 quarters.

Kumar Rakesh: Thanks a lot for taking my question.

Michelle: Thank you.

Kumar Rakesh: You're welcome.

Michelle: The next question is from the line of Kapil Singh from Nomura Group. Please go ahead.

Kapil Singh: Good morning. My question is more on the sub-segments, if you could talk about the growth that we are expecting for scooters and exports, because these segments have also seen some kind of decline for last few months. And similarly for the retail sales also, they have declined in last one or two months. So, are there any factors which are impeding the recovery? And also EV from which month should we expect that the sales will start?

Niranjan Gupta: Hi Kapil, good morning. And I see that there is a restriction of two questions, in one question you have combined four. But we will answer each of these.

Let me take up the exports first. And then thereafter, I pass on to Ranjivjit to answer on the scooter and the retail sales. And then I pass on to Swadesh for EV. As far as exports is concerned, we all know that a lot many countries globally are facing the impact of the inflation, currency etc. And mostly because our sales are in emerging markets. And these markets are facing whether it's Bangladesh, Nepal, Sri Lanka, Nigeria, Colombia, and all of those are facing now, we expect that to be a short term. Therefore, you'll see exports is having a softer quarter. But we do expect in the second half to move up. I think more importantly for us is to continue building scale, building the right product and get to the right percentage of revenue in our portfolio from the global business.

Let me at this stage hand it over to Ranjivjit to answer on the scooter market share and what we are doing to address that. And also on the retail sales, general trend. Ranjivjit if you're there can you just address this?

Ranjivjit Singh: Yeah, sure. My pleasure to do so. Hi everyone Ranjivjit here. The scooter business was actually very interesting for us in Q1, we launched the Destini 125 Xtec. Xtec is really extra technology with the LED headlamp and with Bluetooth connectivity, it's really become a hit favorite amongst people and consumers are loving it. There's a new campaign that's out there, getting a lot of good reviews, the product is doing extremely well in terms of all its variants. So the 125cc segment, we really serve very well in the market and continues to become even stronger play for us. Going forward, we're going to see some more action in the 110cc as well. Some groundbreaking innovation that I'm very personally excited about. We'll be bringing some new stuff in this quarter at time for festival season.

I would say July is a time of transition. It's time for rejuvenation of the portfolio. And as you see July, August, September, over the quarter the whole portfolio is gonna get far more consolidated. And the results will be something that we will be happy to share in our next discussion.

Niranjan Gupta: Thanks, Ranjivjit. Let me hand it over to Swadesh, if you can just update on our EV.

Swadesh Srivastava: Thank you. Hello Kapil. Good morning. We are actually quite excited to be getting very close to our launch. We announced sometime back that we'll be launching our EV product and overall ecosystem in the festive, which is going to happen sometime soon. And, on that day, we're also going to be announcing the dates for dispatches across the launch cities which we have in mind. So just a matter of few weeks.

Kapil Singh: Thank you team for the very detailed answer. Thanks.

Michelle: Thank you. The next question is from the line of Pramod Kumar from UBS group, please go ahead.

Pramod Kumar : Yeah. Thanks a lot for the opportunity. My first question is on the margin front, Niranjan, as with commodity prices easing now. And the expected volume recovery was the way you are looking at it, is it fair to assume that we should see the margin levels improving meaningfully from the current level because the recent quarter margin is definitely not what something Hero historically has had? I would see that as a one off so, so how should one look at the margin trajectory for the remainder of the fiscal and also for next fiscal?

Niranjan Gupta: Right Pramod. Good morning. Absolutely, Pramod as I mentioned earlier as well as the positive impact of the commodity basket cooling off happens. It ensures that moving forward, we have more opportunities for pricing to go ahead of the cost, rather than what it has been for the last 4-6 quarters. And second thing is as the volume picks up and market share picks up, then obviously, we should have the operating leverage. I think a combination of both these factors should, there is no reason to actually doubt that the margin should not improve. I think the combination of both these factors should help our margins to improve. How fast and how rapid we are able to accelerate or should we deploy part of that back into growth, etc., etc. That's something that we continue to take call from quarter to quarter. But yes, trajectory wise, I think all factors augur well for improvement of margin from here on.

Pramod Kumar: Thanks Niranjan for that. The second question is on the demand side, because you had a great marriage season, at the end of season especially for you. And after that however demand has cooled off. There are seasonal factors regular cooled off this quarter. And now the worry is that the majority of the UP, Bihar and a big chunk of Madhya Pradesh are deficient to very large deficient rainfall. And we are probably approaching the end of the monsoon in the next couple of weeks. So could there be any implication on the festive season demand? Because these are pretty large markets? Pretty large commuter market especially. So, how are you as a company tackling that and, to Ranjivjit, in terms of how you look at the inventory? Because those are pretty big markets for you, and pretty significant markets for the entire industry. So will there be somewhat of a moderation on your inventory approach going into the season, because rainfall does affect sentiment, you are seeing some of it already impacted already. So if we can just help us understand that part?

Niranjan Gupta: Let me start and I will hand it over to Ranjivjit. Ranjivjit give me probably a couple of minutes, I will just start off. So, first Pramod as you have yourself rightly said, is that marriage season was a good season. Now what that indicates is that the moment you have an event or a season or you know a general reason to actually buy then people are coming and buying and of course, the current cool off is a seasonal cool off that always happens. Moving forward, we have no reason to believe for festive not to be strong. Yes, there is some deficient rainfall. But honestly speaking, the income line in the rural India is augmented by the crop cycle, the crop production, if you look at it, if you look at the incomes, even the pattern of the consumption spending that is happening, the indicators are positive. And even if you look at the consumer confidence, I mean, that is at its highest post pandemic right now, as you know. All the indicators are giving us strong reasons to believe that there is no reason to prune down on our plans of festive inventory buildup. Ranjivjit can you just add on this, over to you?

Ranjivjit Singh: Yes, in fact, I was going to say that, at this time, the Q1 was much anticipated by the industry and more so by the consumers of Hero, there was pent up demand, the marriage dates are fabulous in terms of April and May a concentration that really got us to a great start. Obviously, as the marriage dates start whittling down the demand changes, but that is not new. We are all experienced in this industry. We know the consumer buying cycles, July is when the onset of the monsoons happen, there will be a change in that and then we have to prepare for the festive season. There are some areas which have deficient rainfall, there are some which have a lot more rainfall than expected. It is really a balance. And I think, the dealers understand that from an anticipation of the festival season. It is very clear that you know, it is looking like a double digit growth for us. There is unemployment reduction in the rural area, we think that rural will pick up even better for this festival season.

Urban has already picked up much better as we saw in Q1, so that that will sustain, but there is a change in the buying season of course between Q1 and Q2 and then there is a preparation for that. As far as the inventory is concerned, the inventory typically is something, like Niranjan already mentioned, that our retails were ahead of our dispatches. And therefore, there is an opportunity for us to make sure that there is enough inventory for the festival season, because at that time, we just have the right mix, the right models, the right numbers, so that we can satisfy the consumer demand. So absolutely, we are very good on the festival season.

Pramod Kumar: Thanks for clarification. What will be our inventory level, at this point of time and what is the target and another thing is like if you can help us understand how big is UP, Bihar and Madhya Pradesh for you as a company, in terms of your total exposure. Thank you.

Ranjivjit Singh: Yeah, so our inventory levels are typically between the six to eight weeks kind of range, depending on the month. And that's what in the end of June, it came down to about 6-7. We will be building it up as we go along. 20% is about the concentration that we get up the bigger markets. And these are the bigger markets, and they will continue to be so.

Pramod Kumar: Thanks a lot and wish you all the best. Thank you.

Michelle: The next question is from the line of Pramod Amthe from InCred Capital, please go ahead.

Pramod Amthe: Hi. Thanks for taking the question. With regard to the regulatory environment, I wanted to know your input on the real driving emission norms, especially the RDE2 which is expected to come in March. What is the technical changes required? One the cost implication and how are you beefing up the supply chain? Second added to the same question is even government is trying to prepone the RDE3 to the RDE2 deadline of March'23. So then, in that case, what is the type of further cost escalation required? And how are you preparing for the same? Which basket you feel that it is at once? Or do you feel you remain back in?

Niranjan Gupta: I think you're referring to what we call it OBD2, which is a regulatory change that you are saying. It doesn't change the emission by the way, it is just an emission tracking. It is an onboard diagnostics. So the emission is the BS6, which is implemented from first April 2020, which actually reduces vehicle emissions on many of the counts by almost 90%. This is onboard diagnostics, which is not something which changes actually emission. There is already a plan in place, our products are ready for that that. The cost impact are not significant and as an industry also will be transitioning, and this is a smooth transition. This is like any other smaller regulatory change that happens.

Pramod Amthe: And do you feel RDE3 or the OBD3 will come in and will that distort as compared to the initial plan of separating them both together?

Niranjan Gupta: No, it won't.

Pramod: Thank you.

Michelle: Thank you. The next question is from the line of Chirag Shah from Edelweiss Securities, please go ahead.

Chirag Shah: Thanks for the opportunity. My first question is on Ather Capital infusion when it happened. If you can help us understand what is the incremental stake in this round of capital infusion that we did and what is our effective stake now in Ather?

Niranjan Gupta: Hi Chirag, our effective stake in Ather, after accounting for the dilution the net is around 35%.

Chirag Shah: 35%, so it has gone down from 38% to 35%, right?

Niranjan Gupta: No, 38% was before the accounting for dilution, you know the way you report is that you don't account for the future potential dilution, right? So that has not gone down. It stayed broadly the same. And if you account for the net dilution, then of course it is 35%, right. But on a gross basis, if you look at the current cap table, it is more than 38%.

Chirag Shah: Okay, like to like it is constant.

Niranjan Gupta: Yeah, slightly up.

Chirag Shah: Slightly up, okay. So that is one thing.

Sir, second question was just a follow up on the demand side. I have a slightly different and broader question that last two-three years we have seen a very significant price rise anywhere between 25 to 35% depending upon model. Do you think consumer have absorbed the price hike? Are their income levels in place to absorb the price hikes? Or there is still some time for them to completely absorb it given the way their income levels have played out over last 12 months? If you can shed some light? What are you reading the ground level on this part? Are they still hesitant to come and buy the product in general at industry level ?

Niranjan Gupta: Right Chirag let me start and then I'll ask Ranjiv to add on this. One is your right obviously, the auto industry has seen significant increase on account of costs, not on account of margin expansions of the industry. In fact, the industry has been very, very sensible in trying to absorb some of the margin hits so that the customers, the push on to the customer is minimized as much as possible. Now, in terms of the absorption, you know, it is not a sort of one simple story. Now, if you see what is happening to the premium variants, when we are launching Splendor Xtec, when we are launching Passion Xtec or Glamour, Xtec, or any of these things, these are all priced at 7 to 10%, more than the base variant, of a base model, which is there in that same segment to the same set of buyers. And we can see far increasing demand of those variants, which are premium variants than what we had anticipated. So, really speaking, it is not about the consumer in general is hesitating to buy more expensive products, it is more about that, how do you make the consumer buy those products or the promise of the product and the consumers are willing to spend.

The second thing is, of course, financing is coming to help. As you know that finance penetration has increased over the last three years, the same period that we talked about, it used to be around 35%, if I remember, right, three years back and 35 to 40%, it is now well above 50%. That helps because in spreading off the EMIs and helping it out. Having said that, obviously there will be certain set of consumers, which do feel the pinch of that, and therefore they become hesitant, but it is not all classes in general. And like Ranjivjit has talked about even with the employment in rural and other segments, bottom of the pyramid increasing and with hospitality industry also coming back in full swing, which actually has a large scale employment in a semi-urban areas as well, that would augur well from the income perspective as well even for that strata of the of the segment. Now let me hand it over to Ranjivjit to amplify. Ranjivjit, over to you.

Ranjivjit Singh: Yeah, thanks Niranjan. Pricing, obviously, you know, for our segments is something now it is over a time that our consumers, they know that pricing is going up, it is an inflationary market. Of course, it is understood. The financing that we're trying to do is really to help even the bottom of the pyramid to participate in personal mobility. And so there are some really interesting things which are being done in terms of direct cash collection. For those who don't have bank accounts or not very familiar with banking, they have, you know, a more convenient way of paying their installments on a weekly basis or on a more frequent than a monthly basis also, as they earn, they can pay that off. That has created a huge new set of financial inclusion intothe consuming class. And I think Hero is leading the way for that. So that is at the bottom of the pyramid. But the phenomenon of premiumization is also happening, because the other corollary to this is people are looking for more value. When they are making the purchase decision, they want to see a better product. They are going in for the Xtec version or the higher version. In fact, our premium versions are often 50 to 70% of the portfolio mix. And that is the trend that is coming through. It is a very interesting dynamic that, you know, you have financial inclusion at one end, and premiumization at the other. And so, this is what the economy is currently, I guess, making people think about their purchase decisions.

Chirag Shah: Okay, thank you very much, and all the best.

Michelle: Thank you. The next question is from the line of Joseph George from IIFL Securities Limited. Please go ahead.

Joseph George: Hi, thank you for the opportunity. Just one question. So when we look at the commentaries coming in from different OEMs in relation to input cost pressures in 2Q, we have had a mix bag. Some companies have said that there is further QoQ input cost pressure in 2Q compared to 1Q and there are some companies have said that 2Q will see easing of input cost pressure. What is the way you see it, which side are you on?

Niranjan Gupta: I won't pick a side. What happens Joseph, is different companies different OEMs may actually have different way of absorbing the cost. In some case you take, you know, after a quarter in some cases, you may have arrangements with your suppliers where you do in quarter. Which is why you will see that disparity of, you know, few months here and there. Because underlying the impact on the trend is not very different from an OEM to OEM, it is a question of them couple of months here and there that you could have an impact. If you look at the commodity basket itself, the commodity basket, aluminum and steel have softened. Now that softening of that impact is likely to come in 2Q, maybe some part of it may come in 3Q, depending on where and what your mechanism for the settlement is. Crude continues to stay high, and therefore, that is something that, though in a trend you can see a bit of softening, but softening from a higher levels. So that can be a bit of a joker in the pack and we will have to just see how it actually pans out. And that is also not because of any demand supply issues. As you know, the crude is behaving more from a geopolitical issue, where there are artificial supply constraints based on geopolitical compulsions. And then the last thing in this pack is the currency. And the currency, you know we saw Fed hikes, and the Fed hikes also led to currency depreciation in most of the emerging markets. The Rupee has behaved much better relatively, if you look at the currency, the central bank, and the government, I think they are doing a great job in actually managing inflation rates and currency in combination. If the currency stabilizes around the current level, where it is, then there is no reason why the commodity basket softening impact should come quicker than expected. That will have to just pan out, I mean, honestly, a quarter here or a quarter there does not make a big difference in the overall trend line of the economy.

But, as we said, I mean, life is uncertain. It is very dynamic, we will have to continue to navigate. Nobody has been able to forecast any of the commodities accurately, whether in the past current or maybe in the future. And I have said so many times, but this is what the current indicators are. And as a company, as

OEMs, as industry, as economy, as country we will have to continue navigating, whatever uncertainty or the surprises that come along our way.

Joseph George: To continue with that, we are already mid 2Q right, we are mid-August now. So I think guessing you have a good sense of whether you will see incremental RM and overhead pressure in 2Q compared to 1Q or we have seen worse in 1Q and we will have a good trend?

Niranjan Gupta: So Joseph, I will stay away from a very specific Q2 or a mid Q2 guidance. But I think overall, I believe that you would have got a sense from what we are saying. And let's wait and watch how it moves forward.

Joseph George: Alright, thank you.

Michelle: The next question is from the line of Rishi Vora from Kotak Securities. Please go ahead.

Rishi Vora: Hello all, thank you for taking my question. Sir, on the first thing on the replacement demand side, so can you just give us some indication? Like, what was the replacement mix for the industry, let us say pre-covid and now how it's shaping up over the last few months, is it improving or it continues to remain at lower levels?

Ranjivjit Singh: So the replacement demand is something that is coming back. We have seen that in Q1, we are also playing a role as a market leader. We recently launched the Wheels of Trust, which is basically a consumer just needs to, you know, through a QR code, go to the site do a self evaluation of any brand of two wheelers that they currently own. And they can get an evaluation and the you know that prompts them to exchange their product. But broadly is in the region of 15 to 18% is the replacement demand. It stays in that region, depending on the kind of segments that we are also talking about, not too much of a shift as yet. If you look at it from 2017, 18, 19 kind of time frame to now, thanks to the pandemic and a little bit of cautiousness there, but it is in the region of 15 to 18% is broadly what we look at and it is very difficult to forecast this kind of a thing on a short term basis.

But what we can do is stimulate the market and make it very interesting for them to bring in instead of, you know, going on prolonging that decision, we encourage people to at least see what else there is in the market and what value they can get for the existing vehicles. And so we are doing that with the Wheels of Trust, we also have some new stores, which are called Hero Sure, which are into the refurbished secondhand vehicles. And we bring them, you know, to those stores or consumers to those stores, from multi brands. And I think they are having an excellent experience there. The whole message, you know, is don't postpone, this is a good time to buy. I think that's something that can't go wrong.

Rishi Vora: And what would be this number pre-pandemic closer to 30%?

Ranjivjit Singh: No, it wasn't, you know, in that region, I think there is a couple of points around 20 odd. But it doesn't fluctuate that much. And what we want to do is to, you know, take it back to about 20 to 24%.

Rishi Vora: And the second question on the spares bit. Now, we have seen our sequential drop in spares revenue, it's just seasonality, or there are other factors that have led to decline.

Niranjan Gupta: It is mostly seasonality only because if you look at you know, overall, Q4 is always a big quarter that happens on the part, accessories and merchandise. Fundamentally, we continue to the above INR 1,000 crores. So Q1 is INR 1,061 crores at 12.6% of revenue. If you remember a couple of years back, it used to be well around 10%, or less than 10% of revenue. So I think trajectory is good. In terms of moving forward. So that's more a seasonal thing as moving forward, we do expect our PAM business to register healthy growth in fiscal year 23. Ranjivjit would you like to add on our PAM business?

Ranjivjit: Yeah, it's always a, pleasure to talk about this business, because there are some fundamental and structural changes that we are bringing in and strengthening that, you know, it's a very interesting model of distribution. So that the consumers have the parts available wherever they need them. It is a far more distributed model, in terms of the number of retailers, which have now become 40,000. And that's up from 39,000 that we had in FY22. The past distributors also we've taken up to 315+. Overall, you know, selling to more, selling more to each and making sure that we also keep refreshing our portfolio. We got into the oil business, and that is also growing well. I think we have got pretty good progress coming in from this business. So that is broadly what I wanted to say.

Rishi Vora: Thank you. Thank you so much for taking my questions.

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

Arvind Sharma: Good morning and thank you for taking my question. Just one question on the quarters specifically, this data decline in the average realizations quarter on quarter. Is it because the mix or anything that you would want to indicate as a reason for this?

Niranjan Gupta: Arvind that's because of the parts business, which is there, as you saw the parts as you know, for two wheeler if you divide it that way, then the parts sequentially Q4 to Q1 has come down.

And the second, is our other operating income that has come down. In Q4, the other operating income was at 186 crores and in Q1 it is at 109 crores. Part of that is a Q4- Q1 issue and part of it is because Neemrana fiscal benefit expired in Q4 FY22. That is why it has come down, underlying if you look at excluding these, the two wheeler ASP that has gone up by around INR 800 per vehicle from around INR

51,200 to INR 51,900 or around INR 52,000 this quarter. This is on the back of the INR 870 increase that we took in ex-showroom price on 1st April and a bit of a better mix impact resulting in the net and as I said last July we have taken a INR 1,250 ex-showroom price increase in Q2.

Arvind Sharma: Thank you so much. And one thing you already told about the staff perspective, a little bit more on that. There is a very sharp increase quarter on quarter staff cost. Is it the run rate that would sustain towards the year, is it a one off for the 1st quarter and then one should expect it to probably go down a bit.

Niranjan Gupta: The increases, also an account of the increments as you know, across the industry, the increments have been higher than previous years. And therefore you see that impact built in, into our employee costs. Some bit of it also happens because of the variable pay and the bonuses, that gets paid out. And so as we move forward, some part of it can get moderated. But, by and large it is the increment and some bit of headcount increases that have happened.

Arvind Sharma: Thank you so much for taking the questions. And that is all from my side.

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

Jinesh Gandhi: Just a clarification on the other income. Can you quantify the MTM loss which resulted in lower other income and also what could be the duration of a treasury book now?

Niranjan Gupta: The other income had two types of MTM impact that we had. One, we carry the FMP but we actually do mark to mark on the FMPs, which are held to maturity. And the second is, as you know, we made strategic investment in Gogoro of $15 million a few months back and as temporarily the prices have come off on the stock. We have provided for that so put together that around INR 60 Crore, so 35 on account of the FMP MTM and 25 on account of the Gogoro MTM. That is what is built in into our other income.

As you know, most of the treasuries of banks and corporate everyone have reported the MTM losses on account of the hardening yields that have happened. That is what has happened as far as the other income is concerned.

Sorry, was there another question on this?

Jinesh Gandhi: What was the duration of the book?

Niranjan Gupta: We have actually moved to the shorter duration and which is why actually our impact is less pronounced. In fact, you know, our duration is less than one and a half years on our bond side.

Jinesh Gandhi: Okay, okay. Got it. Thanks.

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

Jyoti Singh: Yeah, thank you for the opportunity. And so my question is on the EV side. As we are seeing more people on the EV trend as everyone rushing to launch EV so why we are delaying it.

Swadesh Srivastava: Hello. Good morning. Yeah. So, you're right. There is a lot of excitement in the EV world. And we are happy to see that consumers are becoming more aware and more interested in EV. And coming from Hero, which is known to be the reliable high quality product OEM, we are getting ready to launch our best offering in the festive.

And, you know, it is important that we don't rush to the market in a frenzy, and make sure that all customer experiences and expectations are met, whether it is from the product or the ecosystem, or anything new, which we are doing actually from the connected side. Rest assured all of this is in place and will be coming out soon in the festive to cater to the customers.

Jyoti Singh: Okay, thank you.

Michelle: Thank you. Our next question is from the line of Chirag Shah from Edelweiss Securities. Please go ahead.

Chirag Shah: Yes, thanks for the opportunity. Just a follow up on Ather, is it possible to indicate what is the value of your investment because is there need to do any revaluation of that investment in Ather at an annual basis or in some other form.

Niranjan Gupta: I won't be able to answer your question, but let me let me at least give to you, first of all, we account for these investments at book value and the value that is invested. That is our accounting policy. Of course if there is an impairment that we see, then we take that also, that is the conservative accounting principle that we have been following. Now, in terms of what the market value of these investments are, I think Chirag you and the fraternity will be in a better position to actually assess that, given that Ather is doing pretty well. They have a large open orders to be serviced, their brand has been receiving excellent traction, they have launched another variant. Their customer feedback is excellent. I think most of the indicators of the long term value creation are in the right direction. And of course, I would say that, you know, you and the team are better placed to see what should be the market valuation, but from our books point of view, we will continue to account at the book value.

Chirag Shah: At the consol results, there is a loss on share of associate. Would right to presume it largely pertains to Ather or there is a split between Ather and Hero FinCorp?

Niranjan Gupta: Yeah, it is entirely Ather, Chirag. In fact, FinCorp for the quarter has turned out profit of around INR 100 crores. We know that last year they had losses, but they have turned around on the profit and we do expect those profits to keep on increasing. The loss is entirely Ather. We don't expect any losses from FinCorp even moving forward, profit should keep on increasing but Ather as far as you know, in EV it is cash burn for some period of time to come that will continue to see that kind of trajectory there.

Chirag Shah: So INR 100 crore is FinCorp profit right. We will account for our share accordingly.

Niranjan Gupta: Yes, absolutely. Right. So we have got around 40% so that is what will account. I think we are getting down to what is the exact spirit. But now you can work that out without me telling you but you are absolutely right.

Chirag Shah: Thank you very much

Michelle: Thank you. The next question is from the line of Ronak Sarda from Systematics group. Please go ahead.

Ronak Sarda: Hi, thanks for the opportunity. Niranjan a question on the other expenses. If I look at the expenses in the quarter, it is one of the lowest which we have in a June quarter. So can you help us understand? Despite the inflationary concerns, how are we able to keep this under control?

Niranjan Gupta: So Ronak, other expenses, obviously a quarter is you know, not the right way to actually look at it. But of course, we have been exercising all the cost tightening measures, when we see certain inflation going up on materials or other things and we tighten our belts on the other parts of it. But I think it is much better to look at an annual basis, that look whatever was the annual last year and then you account for certain inflation, certain savings that is the best way to actually look for in terms of the other expenses trajectory.

Ronak Sarda: Okay. Got it. And second clarification are one of the comments you made that one of the plants, in the Neemrana plant has the benefits have concluded there? Did I hear that correctly?

Niranjan Gupta: Yes, the benefits included in Q4 FY'22, because it was for a period and the subsidy period actually ended in Q4 of FY'22. Now we have incentives which are there in Gujarat, which is our Halol plant and Chittoor which is where also, we are going to start EV production as well.

Now as Chittoor and these you know the requirements the local requirement ramp up, so then we will see the fiscal benefits of these two units, especially Chittoor actually going up moving forward. But yeah, for now, that Neemrana fiscal benefit have completed its turn of the incentive that we had

Ronak Sarda : Got it. So, we might see some production realignment now based on the fiscal incentives

Niranjan Gupta: Naturally and logically, absolutely. And that would then logically moving forward should also help. You know why, there is one story of Neemrana fiscal benefits going out. And obviously there is some realignment that can happen in the manufacturing plants that can also positively actually benefit our logistics costs. Because as incentive goes out and then you actually spread. That doesn't become incentive doesn't remain the reason for actually moving it to North then as you move to South. Then you can have some benefit on logistics costs as well.

Ronak Sarda: Thank you and all the best for the festive season and launch.

Michelle: Thank you. The next question is from the line of Sourabh. Please go ahead.

Sourabh: Hi, sir. Most of my questions have been answered just if you could shed some light on the Hero MotoCorp FinCorp business just some AUM numbers, gross NPA, GNPA and net NPA numbers, that would be great. And how is the profitability good to be expected going forward

Niranjan Gupta: Look at FinCorp is an associate entity. So I will be constrained by what I can share in terms of the numbers. As I already shared FinCorp, the asset under management is growing, they are looking good in terms of the growth for the next two years, they are well capitalized, their GNPA ratio that I talked about is around 7.5-7.7%, which they intend to bring it down over the next six to eight quarters. So I think that's what I can say other than that, I can actually add a color that our financing, as a percentage of our retail is about 50% and FinCorp share in that is close to around 35- 36%. I think that's the color I can provide. You can of course, offline also connect with Umang in case he is able to provide anything else

Sourabh: Understood. And secondly, on the demand side, just want to know so that now we've seen that COVID effect is almost subsided, schools and colleges have reopened work from office also started. And we at Hero MotoCorp are slightly relatively less affected by chip shortages being in the entry segment. Do we see you know the levels of 2018-19 in the current financial year or in the next financial year? Would that be a possibility?

Niranjan Gupta: So Sourabh you should have asked this question before Pramod asked, then I would have answered in exactly the points that you mentioned. That was a lighter note. But yes, there are a lot of positive factors. Look exactly the ones that you have spelled out. And there are, of course, the headwinds, you know, like Pramod is also talking about which is a monsoon, or some rainfall in some pockets, you know, some rural, etc., etc. So this is a play of the headwind versus the tailwind that we have. And that is the balance that one expects, and which is where we are expecting the festive to be good, and then we will have to take on from there. But the underlying factors of two wheeler demand, they remain very strong and very intact. I mean, one have to move away from months or some of the quarters, if you look at the underlying demand, I mean, whether you look at more women in education and employment, whether you look at the aspirations of young people, whether you look at personal mobility, whether you look at you know, the finance penetration, or our penetration overall vis-a -vis some of the Southeast Asian countries.

I think overall, if you look at it, the long term factors of demand of two wheelers remain very strong. And it is only a question of how fast they manifest back, coming out from the pandemic and the recovery, and which is that is what will determine how fast we are able to get back to the highest level that the industry has seen.

Ranjivjit Singh: Yeah, I just wanted to add, you know, just some very interesting stuff, I'm sure you'll enjoy this when I say it. That there are a number of towns now that in premium talking about demand and you know outlook, that actually have a market share in premium to be over 10% and that big town like Bangalore, Coimbatore, Cochin, Allahabad even Azamgarh and Bareilly that our market share in premium has increased to over 10%.

Now, you are saying that, you know, things are becoming a little bit normal. So what are we doing about that, and we have just announced the biggest Hero dirt biking challenge. And that is going across 45 cities. In fact, today is when the city trials start, and in November, we'll have the nationals. And Bani, who is you know, famous for the Roadies and our Hero motorsports people, they will be the judges, the mentors. There is already 100,000 people who registered and we had to close that down. When we opened up bookings for our X-Pulse rally edition, in four days we had to close it down because we sold out all of it. So there is that positivity. And I think a lot of great questions came in the call where, you know, there may be stress at one segment but there is a lot of buoyancy also and need for that, you know, moving out and moving on. And that way we are absolutely experiencing in our portfolio with our consumers and with our dealers. And that's a great run up to the festival season that we see.

Umang Khurana: Thanks Ashutosh, thanks everyone for coming on the call. We've run out of time. Thank you again for sharing your weekend with us. Happy Independence day everyone in advance. And look forward to keeping connected. Thank you.

Michelle: Thank you. On behalf of Equirus Securities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.