



“Hero MotoCorp Limited Q2 FY-21 Earnings
Conference Call”

October 29, 2020



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MODERATOR: CHIRAJ JAIN – DAM CAPITAL



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Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY21 Earnings Conference Call of Hero MotoCorp Limited hosted by DAM Capital. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Chiraj Jain from DAM Capital. Thank you and over to you Mr. Jain.

Chiraj Jain: Thank you Aisha. Good morning, everyone. On behalf of DAM Capital, I would like to welcome you all to the 2Q FY21 Post-Results Conference Call of Hero MotoCorp Limited. We thank the management for giving us the opportunity to host the call. I shall now handover the call to Mr. Umang Khurana – Head Investor Relations and Business Support, for a brief introduction of the management team as well as opening comments. Post which we will start with the Q&A session. Thank you and over to you, Umang.

Umang Khurana: Thank you Chiraj. Hello and good day everyone. Welcome to the festive season and cheers. Trust all of you are keeping healthy and safe. On the call with us today we have our CFO – Niranjan Gupta; the Head of Sales and After Sales – Naveen Chauhan. We’ll begin with opening comments from Niranjan. And then we’ll open the floor for questions. Over to you Niranjan.

Niranjan Gupta: Thanks Umang. Again, welcome everyone to this call. Good morning, good afternoon, and good evening, depending on which part of the world you’re joining from. I hope you, your families, and colleagues are staying healthy and doing well.

This digital world as we have seen how social distancing has in a way bridged all the divides, even between day and night, as some of us are discovering. So welcome to this new normal. We are all delighted to deliver these results to you. And I’m sure you are delighted as well. Volume growth of 8%, profit growth of 9%, profit before tax growth of 14%, EBITDA growth of 17% and revenue growth of 24%. To top it all, a market share gain of 300 basis points in a quarter. Perhaps we couldn’t have asked for more. But if we go by our own teams, they appear hungry to do even more. Our mantra has been let this crisis not go in vain and due to this, the entire team and machinery has worked relentlessly.

Coming to macros, the economic activity seems to be recovering gradually after the unlock going by all the lead indicators, such as GST collections, e-way bills, online retail, two wheeler sales and recently the four wheeler sector also has joined the bandwagon. The IMF, World Bank and RBI have suggested significantly better FY22 with India growth forecasted to be at 8.8% and global growth at 5.2%. That should bring a smile on our faces. As we have seen, the rural economy has been doing well, even during the crisis, and now semi-urban and urban growth seems to be catching up. The COVID-19 crisis though hasn’t gone away, but the good thing is that people and economies are learning to live with it. Key is to ensure that we don’t let our guard down, but embrace the new normal and new ways of working, achieving the same or even



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better results than before. Our results reflect that it's possible to do so and give us immense confidence moving forward. The sales momentum in two-wheelers has been good. Hero was the first of the block to rapidly restart and has continued to strengthen through this period. We believe strongly, the momentum is clearly with us.

Our supply chain, manufacturing, sales network, all have worked beyond capacity, creating several records along the way, battling the constraints that the industry is facing, we've managed to record our highest ever production in a single day. And we have now produced more than 30,000 units per day for consecutively 10 days. This was enabled by our scale, our powerful execution machinery and the team working with unified goal. It's been about staying positive all the way through this period, not COVID positive but mentally positive attitude which has helped us weather a storm and come out as a winner.

Let me now talk a bit about festive season. There has been a lot of numbers floating across, let me say in short, the season has started well for us. Across segments and regions, we performed well with Splendor, Xtreme and Pleasure, not just in rural markets, but in urban areas, South, West, where we normally haven't been strong earlier. Overall, for the first 10 days of festive, we have registered retails at 96% of last year's level. The inquiries and call trends moving forward are very encouraging and we are confident of a good festive season, as we clearly see now, that semi urban and urban also are catching up. And this wave is not going to end, the wave of growth.

Let me now talk about the Premium segment: I'm sure a lot of you are interested in this. As we have laid out earlier and presented to you at the Hero World event. Our strategy is to create a full portfolio of premium across segments and across engine capacity. Towards this, we already launched XPulse and Xtreme in 200cc and 160cc segment, respectively. Over the next few years, we will continue to fill this portfolio with more and more new models. The Harley Davidson partnership, which we announced two days back, accelerates and enhances our premium segment strategy. There are two agreements to that, as you've seen, under the distribution agreement, we will sell and service Harley Davidson motorcycle, parts, accessories, merchandise, riding gear and apparel through an existing network of Harley Davidson dealers as well as select dealership of Hero network in India. The second part is the licensing agreement, Hero MotoCorp will develop and sell a range of Premium motorcycles under the Harley Davidson brand name. The partnership is going to be mutually beneficial for both the companies and the ride together in the premium segment will be definitely enriching both for us and you as well. So, all-in-all we stay positive on the current festive, on the economic outlook in FY22 and on continued expansion of our market leadership and winning in a new segment.

With that, let me open up the floor for your questions. Looking forward to those, over to you Umang.

Umang Khurana:

Aisha let's open the floor for questions please.



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- Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Kumar Rakesh from BNP Paribas. Please go ahead.
- Kumar Rakesh:** My first question is around the Harley Davidson partnership, can you share some details around how the revenue sharing partnership would work and what do you exactly mean by Premium motorcycles which all segments would you be developing and selling under the brand name of Harley Davidson?
- Niranjan Gupta:** Right. So Rakesh, as we explained it's going to be a Premium range. Obviously, the exact details of which CC and the specified range we will not be able to share at this stage. But clearly it's going to enhance and accelerate our journey in the Premium segment as they would be licensed bikes, bikes which we will develop, which will carry the Harley badge name and therefore be marketed. So it will travel across the different CCs.
- Kumar Rakesh:** And revenue sharing partnership?
- Niranjan Gupta:** So this is a licensing agreement, there isn't a revenue sharing arrangement as we have said. There will be economic incentives for both the parties in this, it's based on licensing.
- Kumar Rakesh:** Understood okay. My second question was more around the margin part last quarter we had discussed that our target is going back to earlier 14%, 15% kind of margin band. Now in this quarter our volume was higher than last year and our overhead cost was so much more controlled than what it would be and discounting also appears to be lower than last year, but we are still falling short of that range. So what essentially is pulling us back on the margin, further expanding the margin in-line with what we have been targeting?
- Niranjan Gupta:** So Rakesh the 14% to 16% has been always our long term guidance. In the short term, we have maintained that the BS-VI, the price increase was passed on absolute terms in terms of costs. And the recovery of margins will happen gradually, both through the cost sharing program. LEAP-II, which we launched and steadily taking pricing action.
- Moderator:** Thank you. The next question is from the line of Nishit Jalan from Axis Capital, please go ahead.
- Nishit Jalan:** Sir my question is on festive period, you did highlight that we started on a positive note. We just wanted to, and get some other more details, for example in North India, where we are a predominantly bigger player as well, do you think that the festive season started well over there as well and during our channel checks, what I found out was that, Navratra, Dussehra period that is a relatively smaller and also relatively smaller chunk of sale during festive period compared to, compared Dhanteras and Diwali. So some color on that would be useful, thank you.
- Niranjan Gupta:** Let me pass this on to my colleague, Naveen.



Naveen Chauhan: Hi Nishit and good morning, good afternoon and good evening to everyone. And I welcome you all on this call. On festive, it has started well, as Niranjana said, there are and we know that there are markets which peak during Navratra period and there are market which peak at a later period and you rightly said North, Central are the markets which actually generally go and peak during Dhanteras period, overall across on a like-to-like basis we are seeing positive sentiment. In fact, the positivity among our dealers is very, very strong. The lead indicators *per se* if I were to pick up, is kind of customer calling up, checking up with us on our products, the positivity that has been created, in fact to the run up to festive, the positivity that we have seen, all are leading to a positive side. So you're right, there are Hindi-speaking markets particularly in North and Central, (are) still too bat in a big way in the times to come.

Nishit Jalan: Sir just a follow up on this. If you can give some indication for example, if we sell 100 vehicle during festive period, will Navratra, Dussehra period be 20% to 30% of that, or it could be substantially higher for you on an overall basis not asking for region specific but overall basis, just wanted to get a sense how important is Diwali, Dhanteras for you compared to Navratra?

Naveen Chauhan: See there are three phases to this 32-day period if you look at, one is Navratra and then you've got a period in between and then you've got last six or seven days. The first 10 days normally account for one third of the total sale that we planned for the festive, and it's going accordingly.

Nishit Jalan: Okay, thank you for that. My second question is for Niranjana. Niranjana you did mention about our profitability in terms of percentage margin. If we look at gross profit per vehicle in the last two quarters, if we adjust for one off and 4Q, we have seen that gross profit per vehicle has come down by about 5% to 6% over the last two quarters. This is despite the fact that we have taken price increases in April and also in July. So just wanted to understand is there any specific reason to that, we have seeing a specific cost pressures on any particular commodity or what's the reason for that?

Niranjana Gupta: No, actually this is not any particular commodity in fact, we should see the holistic EBITDA margin. In the last quarter our EBITDA margin was 3.7%, we had said our underlying Q1 margin was 12%, we've registered 13.7% and all of us know that with BS-VI where the price pass on is absolute compared to the cost pass on, there is bound to be a margin recovery period, which is over a period of time through LEAP-II and through price actions. So no unusual things there. We continue to track well on this with cost management and overall margin delivery. And finally, the objective also is to ensure that the overall bottom line grows. And you would have seen as a combination of volume and pricing and cost and margins, our EBITDA has grown in double digits.

Moderator: Thank you. The next question is from the line of Aditya Makharia from HDFC Securities. Please go ahead.

Aditya Makharia: Yes sir just on the festive season, once again we mentioned retailer are at 96% of last year's levels. Now this is higher than what FADA has been saying, because they've been saying retails



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are down between 10% to 15%. So could you throw some color have you gained substantial market share and also there was talk of some stress in the entry level or the 100cc segment. So maybe if you could just share your thoughts?

Niranjan Gupta: Let me make a comment and I'll hand it over to Naveen. So, as I said in my opening speech, there are a lot of numbers floating around and if the numbers of FADA or the others are to be believed, then mathematically we would have gained market share. So let's wait for the full festive numbers to pan out, but let me hand over to Naveen to add some more color to it.

Naveen Chauhan: Sure. So two things that come to my mind. In times like this, customers look for trust and for value. The very basic the sentiment that brand Hero evokes, which is about trust, we've seen customers coming to us, Splendor is in positive space in terms of retail number in the first 10 days. We have been able to deliver value in fact, continuing on the brand of Splendor we have seen even our own HF customers kind of reaching out and going on to Splendor. So we see it going positively and what Niranjan said in the beginning that there are a lot of numbers which are floating around and hence it was important for us to bring that point of where we stand at this point of time.

Aditya Makharia: Right. And what will be the inventory right now with our dealerships will it be 40, 45 days?

Niranjan Gupta: Our inventory is as per our festive plan. So we obviously planned for a good festival and the inventories are tracking according to that. Our aim is that at the end of the festive, we should be ending up at less than four weeks of inventory. Despite our plants, reaching to 30,000 units a day for 10 days in a row.

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

Kapil Singh: Sir, you talked about three specific areas, one was the Premium segment, one was exports, and one was Scooters. Now we have seen some initial signs of market share gains in Scooter, as well as the Premium segment, but because there is some inventory filling by various players, it's not clear to us. So, just wanted your sense on the retail side, are you seeing similar gains in market share in your opinion. Also, could you help us understand when we look at the Premium segment, should we look at the 150cc, or there are products like Pulsar 125cc which are also considered Premium by some of the analysts. So, just your thought on this whole thing, that about the customer who's buying Pulsar 125 is it a Splendor customer or is it a Pulsar customer?

Niranjan Gupta: Okay, so there are three parts to your question, I'll pick up Scooters first. So this is not just an inventory building phenomena. We shared in the last call also that there are brands like Pleasure, which were earlier limited to certain geographies, we've been able to take it to more geographies and we are seeing traction of Pleasure, especially in the Pleasure Plus format, and recently we had launched Platinum which has also got very positive reviews. Destini is growing significantly. In fact, in our BS-VI format we don't have Duet. But, I'm sure you would have seen the "Baat toh 110 ki hui thi na" advert. So, we've been able to pull the customer to Destini,



which is filling up significantly in a nice way and the result in the end is the gain in market share. On the retail front, I won't comment on what's happening at other places but yes, we definitely see it moving positively. On premium very strong reviews, very strong responses especially in major urban markets like Mumbai, we are on our way to doubling our market share, on the back of XPulse, Xtreme 160 Revenue and also Passion Pro in it's new avatar, is getting very good traction in markets like that. So the gain is across segments, particularly significant gains in South and West and East. And the rest of the markets, our teams or dealerships are very positive on this.

The third piece is about the segment you've said. See, I would say the consumer defines the segment right. And so, you've got Entry which is the first timer who's wanting to get into a motorized area for his mobility needs. So you've got entry price point and then there are aspirants who want to aspire for a better vehicle. Where our Splendor and Passion Pro sits. So, that's what is Deluxe and then there is another segment of customers who are looking for more power at 125cc so we consider 125cc in our commuter segment and our Premium starts at 150cc.

Kapil Singh:

Okay. And my second question is on the cost side to Niranjana sir. When you look at employee cost, other cost, et cetera are these at normalized levels now in Q2, with your thoughts on how these will evolve when you look at second half?

Niranjana Gupta:

Yes, broadly you can assume that these are normalized levels as Q2 was a full quarter. Obviously the line items may change because there would be some employee costs in quarter two, which should be a little elevated levels as we started to get the labor back and therefore some cost are elevated. Equally, you see advertising, marketing costs in quarter two are a bit subdued and they will be more in quarter three. So the line items may shift a bit up and down. But overall, if you see you can assume that we are broadly at normalized levels.

Moderator:

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

Jinesh Gandhi:

My first question pertains to the difference which we see in registration data of VAHAN versus your commentary, there have been consistent divergence, any sense on why such divergences?

Naveen Chauhan:

VAHAN data, in fact last time also we had this question. See there is a lag in the VAHAN data, if I were to give you a very clear cut how you can see that if you refer to last year, the festive was in the month of October, started on 28th of September and then it ended by the end of October the peak in VAHAN if you see that came in the month of November and December, which clearly indicates that there is a lag. In fact, if you look at the markets, when there is no lag, which have same day registration, you wouldn't see any difference in the data points. And more for us, wherein we are spread very deep into hinterland through our vast network of 6000+ outlets, there may be slight lag here and there, but as a long term number you would add up, it will work out to be the same. Also, there are three states which are not on VAHAN which contribute to close to 18% to 20% of our numbers.



- Jinesh Gandhi:** Okay, got it. And second question pertains to the Harley Davidson alliance, so, given that the two separate agreements: distribution and licensing, considering that licensing agreement will kick in once we develop products maybe in couple of years' time or a little later in the first phase of distribution, the products will be manufactured and supplied to us by Harley Davidson, right?
- Niranjan Gupta:** Yes.
- Jinesh Gandhi:** Okay. And in second the licensing agreement there would be joint development of products or it would be products developed by Hero approved by Harley and sold by Hero under Harley's brand?
- Niranjan Gupta:** So, those are the detailing of how both partners will work together but primarily as we have said that the bikes will be developed, manufactured and sold by Hero. But yes, the cooperation and the collaboration will keep expanding and keep extending.
- Jinesh Gandhi:** Okay. Any thoughts of making the products which Harley has been hopefully right now for Indian for global markets?
- Niranjan Gupta:** Sorry, I didn't understand the question.
- Jinesh Gandhi:** Primarily any thoughts on making India as the hub for certain models of Harley Davidson and we leverage on your vendor network and in turn get cost benefits?
- Niranjan Gupta:** So, right now that's within the scope as I said this is the start of the partnership and the partnership is intended to continue to expand and extend in the course of time.
- Jinesh Gandhi:** Got it. Just a clarification on staff cost, does it have any provisioning for the first quarter which has reflected in the second quarter, as the costs appear to be on the higher side?
- Niranjan Gupta:** No, it is just that as I said, the only elevation is because of higher level of production and obviously, as you are getting the migrant labor all back and some social distancing measures, so some part of it is elevated, which would get normalized as you move forward and COVID-19 normalizes, but otherwise it doesn't contain anything which is of the previous quarters.
- Jinesh Gandhi:** Got it. And just a couple of data points, one is the spares revenues and operating other income, and the price increases which you have taken during the quarter and in October?
- Niranjan Gupta:** Yes, so the Parts revenue for the quarter is ₹801 crores, which reflect a 10.7% growth on a year-on-year basis. So that's also been a good story for us where Parts has been growing well. As far as other operating revenue is concerned, that's ₹187 crores for the quarter. And the price increases, you have already seen in the market that we have taken from first of October.
- Moderator:** Thank you. The next question is from the line of Mike Sell from Alquity. Please go ahead.



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Mike Sell: I just have one question. You said that retail sales were at 96% of last year's levels. Could you give us some granularity between rural, semi urban and urban, given how strong the monsoons have been, and the harvest, our rural retail sales are in significant positive territory and that's being dragged down by urban or is it pretty consistent across areas, thank you.

Niranjan Gupta: So good afternoon Mike. Let me hand this over to Naveen.

Naveen Chauhan: Yes, Hi Mike. So, rural continues to remain positive as we've seen since we started out during COVID times. There was a lag in urban and semi-urban, but they seem to be coming back. And, yes, the difference in terms of the growth rates between rural and urban, which in the pre COVID times is to remain between 4% to 6% is somewhere around 8% or so at this point of time. Urban is coming back and we are seeing traction in both markets at this point of time.

Niranjan Gupta: And overall, you are right Mike, the rural positive growth getting a little offset by semi-urban and urban but that also we are seeing the growth is catching up as more days are passing by.

Naveen Chauhan: In fact, on the rural, I just want to add, see Mike this is harvest time here in India. Right, and the farmers are going to mandi's to put their harvest and get money so, as we move into festive in the first week of November, we would see further positive pick-up from the rural side.

Moderator: Thank you. The next question is from the line of Karthik Chellappa from Buena Vista Fund Management. Please go ahead.

Karthik Chellappa: I have two questions. The first one is specifically on the 125cc motorcycle segment where we have seen some aggressive change by Pulsar 125, I just want to know how that is, how much of that is actually cannibalizing our brands and how much of that is actually market expansion and how do you propose to counter that?

Naveen Chauhan: Okay, see we are going as per our plans in 125cc and this is something that we've held very dearly to us in terms of the way we have invested in 125cc. There are two of our brands which is Super Splendor and Glamour, they are in the new avatar. In fact, in festive you would have seen that there is a Blaze edition of Glamour which has come out in the market. Essentially, in in BS-IV era, these brands were limited to certain geographies, in BS-VI period because the kind of performance and the kind of work that we have done on these products, we are seeing positive numbers in new markets. In non-core markets, for example, Glamour if it was an East and AP, Telangana story, today it is a pan India story. We see year-on-year there is a gain in terms of its own contribution into our portfolio as well as market share gains. So that's it from my side on this. Thank you.

Karthik Chellappa: Okay, so another way to interpret it would be that probably the new entrant is expanding the market rather than cannibalizing most of it?

Naveen Chauhan: Cannibalizing within their portfolio is something that I won't comment at this point of time.



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Karthik Chellappa: Okay, great. My second question sir, can I have the share of volumes which are financed this quarter, and what portion of that came from Hero FinCorp?

Niranjan Gupta: The financing Karthik has been on the uptrend, the other financiers have started coming back. Clearly, that's a reflection of confidence in the two-wheeler story and also as all the NBFCs look towards smaller ticket size, and shorter tenures. So that augers well for two-wheelers. We've seen actually financing penetration going up at 40%+ this last quarter and out of that the Hero FinCorp share has gone up to 50%+. We see the continued uptrend week after week. And hopefully by the end of next quarter, the financing would have gone further higher, as more financiers keep coming back, and also as semi-urban and urban also catch up on the growth bandwagon.

Moderator: Thank you. The next question is from the line of Chirag Sureka from DSP Mutual Fund. Please go ahead.

Chirag Sureka: Sir my question was on finance only. Sir, you just answered my question partly it was on financing only, do you feel that dealer financing and retail customer financing especially in urban India is going to be a challenge, given the fact that collection efficiencies have been poor for some of its financiers and we are still cautious on this segment?

Niranjan Gupta: Not really, Chirag, because if you look at it what are the NBFCs doing, if you have to curtail the risk then you would curtail out the bigger ticket size loans because that carries heavier risk and you will cut out on the longer tenures. So therefore you cut out on the tenure risk and the size risk. If you take both these into account, then probably the best way to do is to actually move that money into two-wheelers. So we don't see a challenge as far as urban financing is concerned, it's just about semi-urban and urban coming back to growth, which is the trend that we are seeing. Rural has been the first one of the blocks and then of course semi-urban and urban are now catching up. So we really don't see a challenge as far as the urban financing is concerned once the growth comes back.

Moderator: Thank you. The next question is from the line of Ashwini Agarwal from Baroda Mutual Fund. Please go ahead.

Ashwini Agarwal: Sir we have seen a sharp decline in the labor cost for this quarter on an absolute basis in absolute number basis. So how far is this sustainable?

Niranjan Gupta: So this quarter actually the employee cost hasn't declined, they have actually gone up on a year-on-year basis by 9% and as I explained, that is broadly the effect of obviously the annual increment and second it is slightly elevated in this quarter as we have ramped up the production in a very short time. So you take measures which actually increases the costs in a short term period which will get normalized as we move forward.



- Ashwini Agarwal:** So, I'm talking about per unit cost of labor on the production side, if you work out that number that has come?
- Niranjan Gupta:** Yes, so labor is not variable. So largely it remains, a large part of labor cost is a fixed cost and therefore per unit would not be the right way to look at it as that will always depend on what the volumes are.
- Ashwini Agarwal:** Okay. And you have made an absolute EBITDA per vehicle of ₹7,500 which has not been there in last 20 quarters. So is this number sustainable?
- Niranjan Gupta:** Right. We are doing well! That's all I can say and we are expecting a positive FY22 as well. So if the top line keeps coming the bottom line will keep coming and we have been very aggressively managing costs and cash. Costs, you have seen the results of that are reflected in the P&L with our Leap-II program and you will see more moving forward and cash management. Also, I'm sure you would have noticed from our operating cash flows, they are one of the highest in this quarter, we've generated more than ₹3,000 crores of operating cash flow in quarter two on the back of working capital efficiency and cash management.
- Ashwini Agarwal:** And sir going forward, we have seen hardening of metal prices and also of precious metal prices. So how does it affect you in going for the next two, three quarters?
- Niranjan Gupta:** So, Ashwini look, there are periods when commodities go up, there are periods when commodities come down and all of us have seen these cycle. The important thing is, whether through these cycle does the company have the ability to navigate through, through a combination of obviously sourcing, cost savings and pricing; and we've adequately demonstrated that through all these periods of ups and downs. So honestly, I would not really be concerned about it, nor I would venture into forecasting the commodity prices. But what is important is how do we navigate through these and we have sufficiently demonstrated that. Also if you see the commodity trend for instance, crude actually stayed range bound, it's still hovering around just \$40, while yes, the steel, aluminum prices have gone up. There will be ups and there will be some downs. Currently commodities have started appreciating back. So, there will be these offsetting factors as well and we are confident about our ability to navigate through these and maintain the margins as we have demonstrated in the past.
- Moderator:** Thank you. The next question is from the line of Chiraj Jain from IDFC Securities. Please go ahead.
- Chiraj Jain:** Chiraj Jain from DAM Capital. Just couple of questions, number one last year during this festive season we had let say lot of offers and discounts, generally at an industry level, even though the financial impact was a bit limited and so how do you see the competitive dynamics on the ground this festive season especially in terms of discounting that would be my first question. Second question would be, one of the concerns that we hear from investors is obviously how the post festive scenario may look like. In the current festive while rural has been strong and semi-urban



and obviously urban is catching up. How do you see, let say post festive once let's say, the pent up demand is largely through, any specific comments on that. Thank you.

Naveen Chauhan: Okay, so I don't think this festive has been a period of discounting. The efforts have been more in terms of bringing cheer to the market by giving a good feel to the customer, with decorating the dealerships right. Whatever offers are there, they are very strategically positioned in terms of looking at one of the segments which was down in the run-up, which was the replacement buyer. So, there has been effort in terms of getting those customers out and making a purchase in these festive times. Some more around that, as far as the post-festive time is concerned, you rightly said that pent up is over and the fundamentals are playing at this point of time. Rural, the fundamentals continue to remain strong, urban and semi-urban there are signs of them coming back. Unless and until there is something around COVID, I see this positivity would continue as we move forward. So we are cautiously optimistic about the times ahead post-festive.

Moderator: Thank you. The next question is from the line of Ronak Sarda from Systematix. Please go ahead.

Ronak Sarda: First question is on if you can highlight something more or Leap-II program because we have seen that Q1 was a pretty low volume quarter and Q2 we have bounced back on the highest level production for us so, how are we able to navigate cost any specific areas which we have been able to deliver much better for cost control?

Niranjan Gupta: Right Ronak. As we announced, we have launched the LEAP-II program which covers right from design stage, to on stage production costs, straddling the entire chain. Internally we have upped the target from LEAP-I, where the internal target was 50 basis points to 100 basis point for LEAP-II. We are tracking well on that, obviously the results you will see in coming quarters and then we'll be able to give you a more definite outcome of that. But we stay confident and in fact, this is one of the things that definitely will help us, even if the commodities move up to navigate through the crisis and of course, also help us in moving back to our long term guidance of the EBITDA margin.

Ronak Sarda: Sure, okay. And the second question was as per our channel checks people were speaking the way inventories have been pushed in the market place in the festive season the assumption was festive to start strong but obviously we have seen some decline in the first 10 days. So any specific reason you could ascribe to where the demand has not come back, is it more to do with the replacement buyer itself, any specific reason which you could ascribe to?

Niranjan Gupta: Actually, we have started strong, so I don't know we saying 96% of last year's festive is not strong. Remember the last festive, last Navratra the 10 day period was the highest ever festive for us. So on that base, it's a very good number and as we said that over this period we have seen now semi-urban and urban catching up. So it's not about the different categories of buyer, it's just that the different geographies coming and joining the bandwagon a bit late. And as Naveen explained, this period is just one-third or 30% of the overall festive and moving forward with



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semi-urban and urban catching up. Clearly, the next part of the festive, one would see even more momentum continuing further.

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

Sonal Gupta: Just want to understand, could you give us the sense of what is the retail growth for you in the second quarter?

Niranjan Gupta: As far as retail growth, the second quarter, is not relevant for retail, honestly, there is a shradh period, there is an off period, there is run up to the festive, so sufficient to say that, as far as retail is concerned it's still better than the pre-COVID level.

Sonal Gupta: Okay, retail you are saying was better than pre-COVID?

Niranjan Gupta: Yes.

Sonal Gupta: Okay. I'm sorry to belabor on this VAHAN because it seems like a lot of investors have lot of lot of concerns around that and they think some of your retail market share in the last few months dipping. On that front just wanted to check if you had any comments around that and the second thing was, in terms of our analysis of looking at VAHAN data of course two-wheelers in particular across states, what we see is that, in terms of the numbers, UP seems to be extremely weak, down about 35%-37% for the second quarter, and pretty weak overall for UP. So just wanted to get a sense, do you see, like UP demand being that weak for the industry, so if you can just give some thoughts on that?

Niranjan Gupta: Yes, let me ask Naveen to add some more color to it.

Naveen Chauhan: Okay. So, we've explained on VAHAN about the lag. In the market that you talked about UP, Bihar, and there are markets where in there is a temporary registration, there is a lag. So the numbers come with a lag. If you look at our overall markets, and even on VAHAN, we gained 2% Q2 versus Q2. So that's a number which is there. In Q2 there was a Shradh period and then you've got run up to the festive, which is again 15 days. These numbers normally get reflected later on, and I had given the reference of last year also and that data can be checked. We all know that retail peaks up in the festive. But if you see the data of last year November and December, you will see the peaks arriving there on the registration number.

Sonal Gupta: Okay, and just on financing, what we understand is that there is a reduction in to some extent in the loan to values. So, are you seeing a decline in the like the Deluxe or the mass market segment in terms of loan to value overall or in the percentage of financing?

Niranjan Gupta: Not really, there's no trend as such. In fact, moving forward, we do expect financing to keep moving up.



- Naveen Chauhan:** And it's moving up there are initial signs even in festive also we see there is a positive movement in financing.
- Niranjan Gupta:** In fact, that should be again Naveen a good driver for growth moving forward.
- Naveen Chauhan:** Absolutely.
- Moderator:** Thank you. The next question is from the line of Shyam Sundar Sriram from Sundaram Mutual Fund. Please go ahead.
- Shyam Sundar Sriram:** My question was, there's was initially a very good level of optimism post lockdown on two wheeler purchase for personal mobility. From those levels of optimism, that means there is some decrease, you also mentioned that the growth rate differentials between rural and urban are at 8% points. So, this decrease in optimism is it more due to the income impact, that has now become more pronounced in last couple of quarters in the semi-urban and urban that has for a typical two-wheeler customer that has led to this kind of differential between rural and urban purchase or is it got to do with replacement buyers slightly holding back and then the first time buyers so can you give some perspective on that?
- Niranjan Gupta:** So, we've seen in the past also, different parts of the country urban, semi urban and rural have got different level of penetrations in terms of per household. Hence, the contribution of the replacement buyer in higher in urban as compared to rural, in rural it is the first time buyer which drives the demand. And hence, we've seen in the run up also in the last few years, rural always lead by 4% to 6% in terms of demand. Now, immediately after we opened in the COVID times, we saw that this difference had gone up to even 9%, with semi-urban and urban coming back, this is coming back. And as I said that very strategically we've been driving this replacement buyer to come out. In fact you guys would have seen we did our major campaign on 8th, 9th and 10th of October, wherein we have got 500,000 customers visiting our workshops, this was primarily aimed at driving the urban demand.
- Shyam Sundar Sriram:** Understood sir. And are you seeing more of income impact in a typical two-wheeler buyer, more on the semi-urban and urban areas. Now, in the last couple months than what you are witnessing before or is it getting better-and-better, so what is your sense from that perspective?
- Niranjan Gupta:** As more and more sectors are opening up as an economy and we are seeing those things are actually improving. In fact, early analysis also shows that some of the HF Deluxe buyers actually have upgraded to Splendor Plus. So, those are signs are good and it should continue.
- Shyam Sundar Sriram:** Okay, understood sir. Thanks for that and on the commodity prices you did mention that we have enough leeway to manage that but from a Q3 perspective given that we are hearing good increase in the underlying base metal prices. How much do you see impacting us per se and what is the average price hikes that we have taken from 1st October and can we mitigate this commodity price impact per se?



- Niranjan Gupta:** First commodity is concerned, I did explain a little while earlier that honestly commodities will continue sometimes to go up and sometimes go down. And we, through our scale, through our sourcing through our cost savings management and through our appropriate pricing have been able to manage that in the past and in the current environment as well. So we don't see a concern at this point in time. As far as price increase is concerned, we did take some price increase on 1st of July and we followed that with a price increase on 1st of October as well which is there in the market. So those are all actions which we take judiciously with looking at our product positioning, looking at the markets, looking at the margin and looking at of course what the cost factors are.
- Shyam Sundar Sriram:** Understood sir. Can I ask one last question specifically from our balance sheet perspective on the working capital side these are very good working capital management sir, from a term of trade perspectives the payables appear a little more stretch there in, so has there been any change in terms on the payable side? How to read this or is this more of a September ending and therefore we're seeing a spike in that in the payables?
- Niranjan Gupta:** So, I am firstly glad that you have picked up our very good working capital management because eventually cash is king and that helps lubricate the entire chain which is also helping us ramp up much faster than others. As far as working capital is concerned first, let me comment on the receivable side if you compare our receivables vis-à-vis the same period last year, which is September end last year you would see that the level of receivables are far lower than last year. That also reflects a good financial health of the dealers, which is again helping us grow and also the support that Hero as company has been providing to the front end to all the dealers through this crisis. So those policies, those philosophies have augured well, in terms of the cash flow, the collections that are coming from the dealers and therefore helping us manage the receivables at a way better level than even compared to last year. As far as payables is concerned it is a reflection basically of higher production because we have 45 days, the returns so when the production is ramping up sequentially, as you have seen from a level of 5 lakhs to 6 lakhs to 7 lakhs, then obviously the payables with the same credit terms ramp up. So it's just a reflection of the higher production and no change in payment terms.
- Moderator:** Thank you. The next question is from the line of Sabyasachi Mukerji from Centrum PMS. Please go ahead.
- Sabyasachi Mukerji:** Couple of questions and one clarification. First of all have you passed on the entire cost BS-VI? So, sir my first clarification is have you passed on the entire cost of BS-VI to the customer?
- Niranjan Gupta:** Yes. As we had outlined the absolute cost has been passed on. The margin recovery on that will be a process as we highlighted to come back to our long term margin range.
- Sabyasachi Mukerji:** That is 14% to 16%, right?
- Niranjan Gupta:** Yes.



- Sabyasachi Mukerji:** Okay. Next is, so what would be our current inventory position in the channel, is it fair to assume it is six to eight weeks?
- Niranjan Gupta:** The inventory position at this point in time is honestly not relevant and cannot be calculated in terms of number of weeks. What we are doing is nothing out of ordinary, in fact, what we are aiming at is less than four weeks post festive. Our dealers continue to demand more at this point in time and that is why we been ramping up our production and dispatchers and as we highlighted, we for the last 10 days, we have been able to produce 30,000 per day for 10 consecutive days. And that's happening simply on the dealers' own demand, because whatever we are producing is getting dispatched immediately.
- Sabyasachi Mukerji:** Sure. That's great to hear. Lastly, on your strategy on Ather Energy, what is your long term plan and what is our current stake if you can highlight, thank you.
- Niranjan Gupta:** So, let me talk more about our EV strategy rather than Ather strategy. So as far as EV is concerned as we highlighted they are both Ather of course we invested in 2016. We continue to have +30% stake, our current stake is 34.6%. And plus we continue to develop our own product as well. And Ather is more focused on the premium side, not so much on the mass side and obviously Hero development is going to straddle across both mass and premium.
- Moderator:** Thank you. The next question is from the line of Binay Singh from Morgan Stanley. Please go ahead.
- Binay Singh:** Most of my questions have been answered. I just have something on other expenses, in the past we've seen that the other expenditure as a percentage of sales tends to be higher in Q2, Q3, Q4 versus Q1, and our retail sales play out in that quarter and sales promotion sort of spending ends up being higher in Q3. So how do you see that playing out, we again see a similar trend where your other expenditure are percent to sales right sharply in Q3 versus Q2?
- Niranjan Gupta:** I think it's better to look at other expenses on the annual basis, full year basis and if you look at on a full year basis, we don't see any reason why the percentage to sale should be any different as compared to last year. It will be consistent on an annual basis.
- Binay Singh:** Okay, noted. And secondly you mentioned about this earlier on also in the call that in the past also we talked about this shift from sort of public transport to private ownership. Any anecdotal data that you have in terms of percentages or anything on that?
- Niranjan Gupta:** As far as private ownership is concerned there are trends, definitely. Where you also see corporates, you also see, even urban areas and Naveen talked about our growth in South and West and Mumbai. And one can clearly see people getting on to their private vehicles and that seems to be a thing that could stay for a while. But Naveen if you would like to add to that.



Naveen Chauhan: I have seen in one of the research that we have done, one segment which is office goer is increasing it's contribution in terms of our retail which clearly indicates that there are people moving from public transport to private transport. So that's just one data that I wanted to refer to.

Binay Singh: Will you have data on first time buyers now versus pre COVID, because that will also sort of show that shift in away?

Niranjan Gupta: Yes, that's positive and as I said, the replacement buyer had come down, which is ultimately resulting into additional buy and the first time buyer going up.

Binay Singh: Could you share the numbers like what was it pre-COVID and now?

Niranjan Gupta: Exact details Umang will share with you separately.

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

Aryn Pirani: Actually my question was related to the previous question. So, if I see the last six months, the demand for two wheeler and for Hero has been driven by combination of rural doing well plus some pent up demand and some the fact that there has been some need based panic buying, office goer like you mentioned. So, going forward as the market normalizes, as things open up which segments could do well, I guess rural will continue to do well, but pent up and need based may taper down to some extent and they later will come back. So, if you can give some idea as to how you see the next six to nine months panning out in terms of demand?

Naveen Chauhan: Just one thing to add, demand for Hero at one point it's also about market share gain right. So, in fact 3% which turns out to be close to 191,000 units. So, that's also factor. So, we are in a positive new products are placed very well in different markets. The very fact that in South and West, in top 10 towns we have gained significant market share, right. So it is going to go in the first time buyer, the replacement has been holding on, they will come back, so that's also a segment that we will see growth. We've got a very nicely positioned Passion Pro for somebody who looks at a good option from 125 to 110. It's got 22% torque up, it's a good product for them. So that's how I look at as you move forward.

Niranjan Gupta: In fact just to add Naveen to your point, the other thing is if you look at our market share gain, we have gained in Deluxe, we have gained in Premium, we gained in South, we have gained in West, we have gained in Scooter. So, really it's not been a rural market share gains story for us. Rural is an economic story that they have been chugging along, the economy has been leading, but for us, it's actually spanning across geographies and heartening to see that this is across the Premium, Deluxe, the higher price segments and the more urban places where we have gained market share. So we have reasons to believe and we are confident this the main factor Aryn is also the BS-VI products, our BS-VI products they have been received extremely well in the market and that is playing out in terms of our market share gain.



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Naveen Chauhan: Yes, and especially if we look at 100, 110cc, 125cc in our BS-VI products with the latest technology we are delivering value to the customer for the price which has gone up. And that's why we see the traction, in our brand, in our product and gain in market share.

Moderator: Thank you. Ladies and gentlemen due to time constraints, that was the last question. I would now like to hand the conference over to the management for closing comments.

Umang Khurana: Thank you everyone for coming in. Wish you a very Happy Diwali and keep safe everyone till we meet again.

Niranjan Gupta: Absolutely. Happy Diwali to all of you. Happy festive and keep positive and cheer.

Naveen Chauhan: Happy Diwali! Stay safe and have a safe Diwali. Thank you.

Moderator: Thank you. On behalf of DAM Capital, that concludes this conference. Thank you for joining us and you may now disconnect your lines.