"Hero MotoCorp Limited
Q3 FY2021 Earning Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Hero MotoCorp Q3 FY2021 Earnings Conference Call, hosted by Antique Stock Broking. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. We have with us today the senior management on the call. I will now hand the conference over to Mr. Amit Mishra from Antique Stock Broking. Thank you, and over to you, Sir!

Amit Mishra: Thank you, Aisha. Good morning, everyone. Thanks for joining on this call. We thank Hero MotoCorp management for giving us the opportunity to host the call today. We have the senior management team from the company. I will now hand the conference over to Umang Khurana, Head, Investor Relations, Hero MotoCorp. Thank you, and over to you, Umang!

Umang Khurana: Thank you, Amit. Thank you, Aisha. Hello, and welcome, everyone, to the Q3 post-results earnings call. On the call with us today, we have our CFO, Niranjan Gupta, and our Head of Sales and After Sales, Naveen Chauhan. We will begin with opening remarks from Niranjan and then open the floor for your questions. Over to you, Niranjan!

Niranjan Gupta: Thanks, Umang. Hi, welcome everyone on our earnings call today. Good morning, good afternoon, and good evening, depending on which part of the globe you are attending from. I hope all of you continue to stay safe and healthy. As you have seen, Q3 has been a historic quarter for us in many ways. Despite all odds, we delivered the highest daily production, highest monthly production, highest Q3 volume sales and highest-ever quarterly revenue, and we continue to have market share gains, market share gains not only in domestic, where we continue to expand our leadership based on our strong portfolio, gaining by 190 basis points, but also in global business, gaining by 90 bps in the quarter.

It has resulted in a robust increase in revenue, EBITDA impact, which you have seen, outlining our consistent principles of profitable growth. While we are propelled into a V-shape recovery, we continue to maintain all precautions across our operations with respect to COVID-19 and happy to report that we have reached a level of 0 active cases across Hero. The only thing which probably stands on a higher priority for us over profitable growth is the health, safety and care for people and the planet.

You have already seen that Hero is the only 2-wheeler company in India to be included in Dow Jones Sustainability Index (DJSI) for Emerging Markets. The outlook for global economy and Indian economy is strongly positive, as outlined by both the IMF and today by RBI forecasting double-digit GDP growth for FY2022 for India.

The Union Budget and RBI policies are geared towards propelling underlying growth without giving into compulsions of short-term stimulus. We have stayed positive throughout the pandemic crisis and, our belief, is getting translated into results and we continue to stay optimistic about medium-term growth potential of both India as well as the auto sector. We now look forward to your questions as well as inputs and let me now open the floor for interaction.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Binay Singh from Morgan Stanley. Please go ahead.

Binay Singh: Two questions from my side. Could you talk a little bit about your ASP expansion? What were the drivers for that in this quarter? We see ASPs up around 2.5% quarter-on-quarter. Within that, could you share your Spares number in the September quarter and December quarter? Secondly, one of your peers has talked about almost 300 basis points of pressure on the commodity side. How would you see those pressures? How much of it is already there in December quarter? And what kind of headwind are you expecting in the March quarter, and how are you looking to offset that? These are two questions from my side.

Niranjan Gupta: Thanks, Binay, for asking that question. On the selling price, it is a combination of 2-3 things. One is the price increase that we took from 1st of October. The second is our mix is also improving more towards premium, which again is improving the underlying health of our portfolio, and the third is Spare Parts, which yourself have asked a question, where we grew by 29%, where last year was ₹800 cr., and we had in Q2 as well a similar numbers of ₹800 cr., and this year, this quarter which is Q3, we have delivered ₹1,033 Crores or 29% growth. Before I come to commodities, let me just ask our Head of Sales and After sales, Naveen, to talk a bit more about Parts because there is an underlying change that has happened in the way we sell parts. Naveen, would you like to add more color to Parts growth and what we are doing and the future potential?

Naveen Chauhan: Sure, Niranjan. There is a fundamental shift that we have initiated around 1.5 years ago primarily on the distribution side. I mean you say that you learn from across industries. We have looked at what is being done in FMCG and other businesses, the kind of distribution that they do going very deep into the market. So I mean, we have looked at what is the kind of distance, time, frequency at which things are delivered to the customers, to the retailers, to the Asli Hero's technicians. I think there is a sea change in the way we operate. We have gone very deep at every district level. Our number of retailers that we cater to is almost up by 50%, if I look at our number of independent technicians that we directly deal in. There is HGP on wheels, a new concept wherein we are delivering Parts to technicians on a 2-wheeler. So all in all, a huge push in terms of going very, very deep with range into the market, and add to that another portfolio in our parts business which is what is building up is the accessories business. It is the initiative, again, 1.5 years ago that we put on track. It is showing results, and our plans are huge on that front as well.

Niranjan Gupta: Thanks, Naveen. Let me just come to the commodity part of it. Now Binay, commodity escalation is nothing new. I mean we have seen commodity cycles operating in ups and downs, and because of our portfolio; our supply chain; our scale; our ability to dial up, dial down the costs, we have been able to navigate the space of commodity very well, as you will have seen, in the last few quarters or the last few years, and therefore, we are confident of navigating this, and as we have mentioned, we will continue to focus on balanced, judicious price increases. We have taken price increases. Industry across has taken prices up from 1st of January, but we continue to focus aggressively on cost savings. By the way, our LEAP-II savings program, which we have outlined 3 quarters back, if I remember, that we embarked on, has started resulting in significant savings. This quarter, we have generated more than 100 basis points out of LEAP-II alone, which is more than twice of what LEAP 1 was generating, and we see sustainability of these savings moving forward in the next few quarters because they are on the back of very robust projects which were outlined in combination across the supply chain.

Binay Singh: Thanks a lot. I will come back in the queue. Thanks for the detailed response.

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 2 questions. The first one is the 125cc motorcycles, where we have seen some sharp gains by Bajaj through their new Pulsar, which is growing off a very small base, but what I notice is among the mainstream brands in the 125cc segments it is actually Glamour which has been down the most year-on-year, if I were to compare it even to Splendor and Shine, etc. In your assessment, what would you attribute this reason to? And what are some of the initiatives that you are taking to arrest the share loss in the 125cc bike segment?

Niranjan Gupta: Thanks, Karthik, for the question. Let me start, and then obviously I will hand it over to our expert, Naveen, on this. Let us just take a step back. Overall domestic, we have gained market share of 190 basis points in the quarter. In the deluxe segment as well, we have gained share, but sometimes if there is a shift that happens, and between 125cc and the 110cc deluxe, our margin profiles are not very different. So on portfolio perspective we have gained share across the segments as well as overall domestic, and we will continue to do that. Having said that, yes, there are certain things on Glamour which we have noticed and there are actions but let me just hand it over to Naveen for more expert comments.

Naveen Chauhan: Yes, sure. I think it is the same story, right? There is so much of shifts. In fact, just go a little back in Q4 of last year, when BS VI was coming out. Whole Corona impact actually shook the consumers, the income levels, the industry, and the combination of the two - Price increases on account of BS VI and industry impacted by COVID, had a lot of shakeup in the industry. Customers moved from one brand to another. Within the brands, you see our Splendor portfolio. The contribution is going up significantly. Within brands we have seen, and it is true about some of the competition also, brands that you are referring to. You will find there is a huge shift which is coming down, and if we look at the consumer profile as well in the 125cc segment. Earlier, it used to be someone who wanted to have a little bit more power, more of a commuterish product. Those were the kind of customer segments that we were looking at. Now it is the premium guy who is kind of coming a little down and opting for the style segment in 125cc. We have got our new products, fresh products in BS VI regime with Passion Pro coming into the same segment, attracting those style segments, as Niranjan said. Overall in the deluxe portfolio we have done good. So we are getting that customer with Passion Pro. The Glamour, particularly the product that you talked about, it also came into a new avatar. Interestingly, we have been gaining market share across the country, except for some of the core markets which are AP, Telangana, and East. We have noted that and there are steps, and in fact, one thing that we, as an organization we have done great, is the agility to respond to the market needs, and that has been a mantra. We will go with the same mantra and come up with the right solutions there.

Karthik Chellappa: Got it. That is great. My second question is could you share the share of financing this quarter for Hero? And within that, what percentage will be accounted for by FinCorp? And has the mix of your financiers, by and large, changed either year-on-year or quarter-on-quarter?

Niranjan Gupta: So the finance penetration, and when you look at the actual final customer sales, is a percentage of close to around 50%, although typically Q3 is, because of festivals, also somewhat elevated levels, but it is progressing in the right direction, and FinCorp as a percentage is close to around 40%. We have been enrolling more financers into our bouquet of financing so that we can have more customized products in the pockets where different financers are strong.

Karthik Chellappa: Okay. So it looks like the share of FinCorp has actually come down at the margin.

Niranjan Gupta: Yes. You could also say that overall it is not come down on absolute but just the expansion of the penetration. So there are always 2 ways to look at this Karthik, and then every company has to optimize based on their own appetite for the customized products.

Karthik Chellappa: This is great, that is all from my side. Wish you and the team all the very best. Thank you very much.

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

Gunjan Prithyani: Two questions from my side. Firstly, on the financials, when I look at this consolidated P&L, there is a loss of about ₹100 cr, that I see from the associates. Could you just give some color on what is this loss coming from? And if you can share a little bit more color on what is happening with the Hero FinCorp financials or asset quality, please.

Niranjan Gupta: Gunjan, yes, you rightly noticed, and that is because of 2 reasons. One is, as Ather has launched into more cities and into new products now post their capital raise, obviously, initial period, there will be a cash burn which will be a higher rate as they expand into more cities, and that is what reflected as part of that. The other part is, post the moratorium period getting over, obviously the entire NBFC and the financial sector is adjusting their provisioning and the NPAs, and therefore, you will see the impact from FinCorp in the quarter. Their collections continue to be robust. They continue to pick up in terms of their continued collections that are coming in, and they are seeing buoyancy in the business growth moving forward from here on.

Gunjan Prithyani: Is there any color further you can share on the numbers of FinCorp in terms of the gross NPA or earnings? If anything is handy. Because, or the breakup of this loss because I am just trying to understand is this something that we should be thinking from a modeling perspective, that there is going to be a similar drag when I look at F2022 as well?

Niranjan Gupta: Do not expect a similar drag at all, but Umang will offline connect with you and then he will try to provide more color on this. This is a reset or readjustment which most of the NBFC companies have done in Q3 post the moratorium period getting lifted.

Gunjan Prithyani: Okay, got it. The second question I had was on the market, if you can share some color on how the retail demand has been, particularly post the festive because there has been a lot of concern in the market that 2-wheeler demand is still looking a bit softer so if you can talk about it, and also share your thoughts on this VAHAN trend. Because we continue to still see low-teen decline there. So both of this put together, it will be good to have your thoughts on how we are seeing the market.

Niranjan Gupta: So Gunjan let me address the VAHAN thing, first, right? So consistently VAHAN is lower, and that is because of the coverage and obviously some of the data collections and the lead and lag impact but surely over a consistent period, if our sales are higher and higher and higher, somewhere those 2-wheelers are going, and I can assure you they are going to the customers and they are riding on it! So I think that is what I will say, as far as VAHAN is concerned. As far as demand is concerned, we have seen a good demand on the festive which has happened, and now the forecast, as far as the economic outlook is concerned, that is positive, double-digit growth by IMF. RBI today has talked about, if I remember, 10.5%. We are talking about crop, which is again a growth over last year, Rabi crop which is there. We are talking about the water reservoirs which are at a high level. GST collections are at an all-time high. So honestly speaking, all the indicators which would in effect boost demand overall and for rural and especially for auto are all in place, so there is no reason to believe that demand will suffer moving forward. Of course, there can always be a couple of months here and there where somebody is off to a slow start, a marriage date which can shift from A quarter to B quarter. So those kind of things can happen, but underlying medium-term demand, if you see, we have no reasons to doubt the robustness of the demand, and plus if you see the vaccine and the sentiment, people are going out more, we see more sectors opening up. I mean, as of 1st February now, theaters have been allowed to operate at 100% capacity. Now one would queue that what has that got to do with demand? But yes, as more and more sectors open up, the consumer confidence boosts up. And of course, on top of that, the Union Budget, which is focusing on significant increase in capital expenditure, infra projects, that will generate, hopefully, employment, and it is the right budget to generate again, propel the medium-term growth, and RBI is keeping a soft interest rate regime, as we saw in the policy today. So all the macros are in place, including macros and micros, so there is no reason to doubt that, if in the worst-affected period if the demand has been good and the results have been what you have seen, that in the period when the economy is recovering, it should be any different. If it should be any different, it should only be more positive trajectory.

Gunjan Prithyani: No, no, absolutely. The results have been great, but I was just trying to understand that you mentioned there was a positive growth in retails and festive that we came out with the release. Is that trend kind of held on post the festive also? That retails have been stable is broadly what I was trying to understand. Or has there been any moderation?

Niranjan Gupta: Short periods are too short to actually look at. January, for instance, first fortnight, it was not an auspicious period. All of us know that. So I think let the things pan out in February, March; and we will see. Fundamental drivers, we do not see anything different. If at all, they are moving in the right direction.

Gunjan Prithyani: Okay, got it and just one question I can squeeze in on the margin side: You mentioned there are levers around costs and levers around price increases. So we are sticking with that range of about, I think, 14% to 15% EBITDA margin that we had shared. Is that something we can manage when I look at next FY2022 with the levers that we have of costs and price increases?

Niranjan Gupta: Yes. So as you know, we refrain from giving a quarter or a particular year guidance, but yes, as far as medium-term range is concerned, the tram line that guides us for our decision making is 14% to 16%, which is what we have reiterated always, and you have seen how fast we have come back to those levels after the initial drops. So that keeps guiding us on balancing between market share growth and margins so that we can deliver profitable growth.

Gunjan Prithyani: Super helpful. Thank you so much.

Moderator: Thank you. The next question is from the line of Siddharth Vora Reliance Nippon Life Insurance. Please go ahead.

Siddharth Vora: So, I agreed Niranjan your product demand trends which you have pointed out. I was a little bit confused looking at the volume numbers for December and January. Is it a case of production issues or are you trying to reduce inventory levels for better price hikes in the current RM cost scenario? How should we look at it?

Niranjan Gupta: I think, Siddharth, I would only suggest that we should never look at in our viewpoint at least, we do not look at a few weeks and 1 month or plus or minus, right? So we should look at a quarter in totality, and Q3, you have seen in totality what the numbers are. There is no conscious action to change dispatch numbers or inventory numbers. As it plays out as the quarter picks up, again the same will pick up back again. As we said, what is more important is, are the drivers intact? Are the drivers getting better on macro basis, yes or no? And there we see the drivers getting better on macro basis. Interim period, a few weeks, a month here and there, there will always be those pluses and minuses that happen on a demand basis. That is not reflecting underlying medium- or long-term demand patterns.

Siddharth Vora: Sure, and there are no supply chain issues relating to semiconductor or anything, right?

Niranjan Gupta: So semiconductor is impacting globally the auto industry, but we have managed it well and it is in control, as far as we are concerned. Our products are less dependent on semiconductors. I think, though I am not an expert on 4-wheelers, what I understand is 4-wheeler sector is more dependent on the semiconductors. The supplies are picking up, but through our storage, our stocks, or the back end, we are managing it well, so we have not faced any production losses, so far, on account of semiconductors.

Siddharth Vora: Sure. Just one question: I was happy to see a lot of anniversary editions across the product range which we saw during the festive season. So it is, just to catch-in in terms of the festive season premium demand, trying to improve the overall realization? Or you will see such models going on sales for the entire year. How do you look at it?

Niranjan Gupta: So let me start, and then I will hand it over to Naveen, on this one. First of all, as we have outlined 2-3 weeks back as well, is we will continue to have new model launches as well as refreshes going forward every year, and this is not something new, but this is something that we have outlined even a couple of years back, and you have seen that. Alongside, within these new models you will see a focus on premium, which again we have outlined that we will continue to see over the next 3 to 5 years actually spanning across the entire middle-weight segment and across the different classes like adventure, commuters, sports, etc., etc. So within that, that is what was outlined, that 10 or more than 10 models, including refreshes, will be there every year. As far as the current one is concerned, as you know, we crossed the historic milestone of 100 million cumulative production. That is a big milestone not just as a historic total, but it also indicates the huge customer base that we have and the potential this customer base has for revenue and for monetization moving forward. So these are the occasions that we will leverage to then launch the variants and editions, which then propel and rejuvenate the market. Naveen, would you like to add something.

Naveen Chauhan: Yes. So, and in fact, our experience with these, the variants that we have created, the refreshes that we have created, it has worked wonderfully well for us. I mean in festive we had launched Blaze and Canvas model, which was kind of based on the crowd sourcing idea. It has done wonderfully well. It continues to do good. Pleasure Platinum has been able to expand the Pleasure brand across the geographies. So the strategy that we have taken in terms of coming up with refreshes is working well, and we continue to kind of move ahead on that.

Siddharth Vora: Yes. So these refreshes are available all throughout the year. It is not that for the end of festive season for that 1 month and they are no longer available.

Naveen Chauhan: See, if you are talking about 100 million, it is going to be limited editions, right? It is a limited-edition model. However, there are a few refreshes that we are talking about. They are there on a sustainable basis; for example, the Splendor Canvas edition, which will continue to be there. It is exciting the market. You will see more of it. Pleasure Platinum will be there. It is a new variant. So that is what it is.

Siddharth Vora: That is it from my side. Thank you so much.

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

Raghunandhan N. L.: Congratulations on strong numbers. First question is on student demand. Student demand as a category used to contribute 10%, 15% of volumes in normal years. This segment has been weak in recent quarters. How do you see the recovery panning out in this segment? Any thoughts there?

Niranjan Gupta: So Raghu, absolutely right, and we talked about not only macros but micro factors, and some of the factors will come alive, and something that we missed talking about is what you have picked up, which is the student demand. As the colleges and schools start opening up, as you have seen in certain states which have already been announced, I think Maharashtra, Delhi and some other states have announced. As they start opening up, that part of demand also will come back. Naveen, would you like to add?

Naveen Chauhan: Yes, and we are seeing that in more urban centers opening up, more school and colleges opening up. This demand which used to come normally in the month of June, July, it is kind of manifesting now.

Raghunandhan N. L.: And it should gain momentum going forward. I mean just to get us a sense: How weak is this portion of business in the last quarter or year-to-date? And when do you see the normalization happening?

Naveen Chauhan: So this has started picking up. We know that, due to lockdown of colleges and all, normally which used to come in the month of July and on, as I said, it was not there. The pent-up of that is going to come now, and as, state by state, colleges are opening up, this will manifest.

Raghunandhan N. L.: My second question was on premiumization is being seen in the industry, and Hero has done well so far in terms of market share. Assuming this premiumization persists over the next 2-3 years, how would Hero look at sustaining market share? Can you give some color on new products ahead to get benefit of premiumization? Also by when can we expect details of joint product development with Harley?

Niranjan Gupta: So Raghu, absolutely right. Premium is a big focus area, and we outlined the strategy. Even in Hero World last year, we reiterated there, and you have seen. You have seen that the focus is on building a full portfolio of premiums. So we went with our models in 200cc to create that, again, a positioning which will take us into a higher level we have now gone into with 160R, which is right in the belly of the market, and you will see more and more actions. As we have said, we will cover the entire middle-weight segment, which we have outlined earlier, in the next 3 to 5 years, and you will see actions every year with some of the other premium models coming in. Our partnership with Harley, that again, in a sense, is icing on the cake because that allows us to get into a segment which would generally be difficult unless you have got that retro, that heritage brand image, and you know what I am talking about so that, again, product development has already started. We cannot give you the timing as of now, but we are accelerating that plan so that we can get into that segment as well. So you will see a lot of actions, as far as premium is concerned, moving forward.

Naveen Chauhan: And on the top of it, I think the kind of portfolio that we have, and it is going to be in the near future. It is doing well in urban markets wherein you kind of associate the premium products. We have been gaining good grounds. Interestingly, with 160R we have been able to expand the size of the pie in some of the rural markets as well. I think that is another story which is working fine and good for us.

Raghunandhan N. L.: On Harley if you can also mention some details on this distribution venture. How the business model be? Or on the margin side, how does it work because now things have commenced?

Niranjan Gupta: Yes. So as far as Harley is concerned, you saw the announcement. We now have a separate division which has been put into place in double quick time. As you know that we just, probably around 3 months back, October 27, 28, we signed the deal, and the full team has been put into place with a full business division. We have already signed on more than 10 dealers. 11 dealers were signed on. Dispatches have commenced. So really we are full throttle into this, and what this business would do is, apart from the distribution business, more importantly, the association of Hero with Harley augurs very well, as far as the premium brand imagery is concerned, and I know that you and some of our other friends on the call had been asking me in the past that, "You can have products, but where will you get the imagery from?" Of course, there are 2 ways. Organically, you build a brand. You can still build. Or inorganically, you tie up and collaborate in some form or the other. So that way, the association augurs very well, to lend that image to Hero as a premium association, and of course, with the product portfolio that I just talked about, the combination of these 2 gives us huge confidence on the premium portfolio moving forward on a medium term.

Raghunandhan N. L.: Thank you Sir. All the best.

Moderator: Thank you. The next question is from the line of Shyam Sundar Sriram from Sundaram Mutual Fund. Please go ahead.

Shyam Sundar Sriram: This is Shyam Sundar from Sundaram, and a very good operational performance. You also indicated the LEAP savings that are flowing through. Many congratulations on the execution, Sir. Sir, my question is related to the RM cost inflation. We have spoken about it. I just still want a little bit more clarity on that, Sir. So until now, on a blended basis you will have taken somewhere close to a 2% to 3% blended price increase, and does this price increase offset the RM inflation in Q4 as well? That is my first question, Sir.

Niranjan Gupta: Shyam Sundar, on as far as the cost inflation is concerned, let me again reiterate. So this is not something new that we are seeing. We have seen many quarters where the cost spikes up and then it comes down, and yes, industry is facing that, again as far as the Q3 and Q4 is concerned. We have managed Q3 very well by accelerating the LEAP-II savings, as I said. The saving program has sustainability of delivering those numbers over the next few quarters, and that gives us confidence. So I think a combination of the price increase that we have taken and the savings program that we have in the pipeline. We should be able to manage the margins and overall deliveries, but yes, we need to keep navigating this space because, rather than looking at a month, 2 months or a quarter, we need to look at it more in terms of a few quarters put together and which is where we keep saying that our overall range for the medium term of margin is 14% to 16%, and that keeps us guiding. When we go below 14%, it tells us that we need to do something more and we move towards closer to the 16%. Then probably there is the potential for growth or fueling growth more. So I think that helps us, the tram line helps us in terms of navigating.

Shyam Sundar Sriram: That is very helpful. Sir, my next question is on the demand outlook, Sir if you can provide some geography-wise outlook between North, West, South and East. The reason I am asking is we do hear some disruptions because of the farmer protests in North, etc. How are you seeing the underlying demand in terms of the various geographies if you can give some perspective, that will be very helpful, Sir?

Niranjan Gupta: So let me just talk a bit, and then I will ask Naveen to add. I think the underlying demand, anyway, like you mentioned, underlying word, in my view, in our view, should not be looked at from temporary agitations or disruptions. Because then it is not underlying. It is a temporary shift as because of disruption that happens. As I said, because of macro, micro, there is no logical reason to believe that the demand moving forward over the next few quarters should be any different than what we have witnessed, if at all positive. There, of course, will be a few weeks and a few months here and there when the occasions shift, the marriage dates shift, or some agitation happens, that you could see some kind of things that come, bumps that come along your way, but inherently what we look at is the underlying demand, and we do not see an issue on the underlying demand on a medium-term moving forward, but Naveen, you will add.

Naveen Chauhan: Sure, Niranjan. I think you have said it right. The fundamentals remain the same. Macro factors, the rural factors, they are all working positively. Month-on-month, there may be few occasions in some of the markets. Like, for example, if there is Pongal in South, you would see Tamil Nadu doing good, right. So, and more and more, you will see the migrant workers coming back, you will see those markets in that month, in that period, in that quarter would add to the demand. So at a fundamental level, things are well in place. These chapters of some festivals on the market and markets opening up, schools opening up and, as we have seen, that’s gradual from state to state. So that is how it will be. Dynamism is going to be the name of the game, and we have been agile now.

Shyam Sundar Sriram: One last question, if I may squeeze in. On the export market, while it is still a very small part of our overall volumes, we have seen a good ramp-up on the export side. So where are we headed? Any aspirations that you can share specifically on the export side from a 2-year perspective? Do we want to be, let us say, 10% of our volumes? Where would we want to see ourselves heading on the export side, Sir?

Niranjan Gupta: So Shyam Sundar, a good tick on that. Our exports have done well this quarter. We have gained market share, albeit on a smaller number, we have to say. Certain things which are panning out very well now, and we have been talking about, if you remember, last time, we talked about that, as far as global business is concerned, we have 2 phases. Phase 1 was about seeding into more and more markets as fast as you can so that you can learn fast, fail fast and therefore thereafter decide to build. Very clearly, in the phase 2, and we had outlined this, we are putting the customized products, the products that the market needs, after learning from that. Plus aggressively we are focusing on some of the top few and key markets. So that is what we are doing on global business. Results, we have started to see. Colombia, for instance, have seen a jump in the market share. Plus, financially Colombia has, after building for the cash burn over the last few quarters and few years, has actually moved into breakeven now. If you look at now new entries: We have announced Mexico. Mexico is a big market, and the partner that we have tied up has got a big established base in Mexico, and therefore, we do see that as a big potential volume driver for us moving forward, while the other core markets, the top 5-6 markets, like Nigeria, or we are talking about Bangladesh. We are talking about Sri Lanka. We are talking about Colombia. They will continue to be focus areas for us moving forward and you will see a lot more action on this. So we are quite now confident about continuing to build on these numbers, and while I do not want to give a number out to you for what it will be in a year or 2 years time, but we are confident that we will positively surprise you.

Shyam Sundar Sriram: Understood Sir, thank you very much Sir for that.

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

Kumar Rakesh: My first question is around the other operating expense line for you. So one of your competitors talked about how aggressively they are using digital marketing, and using that, they have been cutting down their marketing expenses. You talk about that you are also on a LEAP-II program, which has helped you by around 100 basis points. Despite that, sequentially, if you see, the operating expenses have increased higher than the revenue increase. So is there any incremental potential here that we also start adopting those digital marketing opportunities and further reduce this cost line item? Or our scale or the product mix is such that it may not be entirely possible?

Niranjan Gupta: So Kumar Rakesh, on the other expenses, the number that I am seeing is you have got to look at one is if you look at sequentially, right? The other expenses are around the same number as a percentage of revenue, which is 9.76%, and if you see, if you combine that with employee costs and all the others, they would have come down by a few basis points, maybe 10, 20 basis points. If you look at year-on-year basis, it was significant down in terms of the percentage of revenue, which is of course on the part of the revenue leverage that we are getting with almost close to our 40% revenue growth. So we see that. That is a good feature because that is already contributing to margins. Of course, quarter 3 would always have because of festive a higher A&P expenditure, which then starts getting normalized in quarter 4, and that is the tradition which is there in each of the quarters, but our focus broadly on the shape of the expenditure remains the same with ensuring that we invest behind brands in the market while actually cutting down and optimizing all the other discretionary costs.

Naveen Chauhan: And just to add to that, Niranjan. I think specifically digital marketing was a point that was raised. I mean I do not look at it as a cost-saving measure. I look at it as a very, very effective medium in these times. The consumer footprint, digital footprint is on the rise even at the entry segment, and hence that is the right way to go, and we have been doing some good job in that space as well.

Kumar Rakesh: Got it. That is very helpful. My second question was around inventory levels. On the last call, you had talked about that the target is to bring it down, post festival, around 4 weeks so where we would be now compared to that target.

Niranjan Gupta: Yes. So we did come down to 4 weeks at the end of festive like we have said, and thereafter they, usually then, you move to normalized levels because obviously with just 4 weeks of inventory you cannot sustain such a distributed operation, but whatever our normal levels, which we had said always 4 to 6 weeks, just like margins on inventory, also we maintain the dealer inventory range on forecasted future 3-month sales, and we are in that range.

Kumar Rakesh: Got it thanks for that I will fall back in the queue.

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

Kapil R. Singh: Could you talk about the scooter segment? And then what are the kinds of actions we are planning there? And if there is any update on electric scooters. We are hearing a lot of action on that, at least from a launch perspective. So yes, these areas, I would like to hear your thoughts.

Niranjan Gupta: Okay. Kapil let me just request Naveen to address the scooter part, and then I will come to the EV part.

Naveen Chauhan: So scooters. I mean now you have kind of seen the market shares are in the positive space. We are in double-digit number. So this space available for us is immense, right, and there are some good product interventions which are being done, micro market-level interventions which are being done, and we are confident that, as we move forward with the kind of refreshes that are coming in, we should be doing well.

Niranjan Gupta: As far as EV is concerned, Kapil, as we have outlined, we will continue to work on the programs both, obviously with the investment in Ather, and we have our in-house EV development which has got accelerated. We have already given out certain timelines on that when we talked about in the Hero World. We have talked about towards the end of 2021. It could get shifted by maybe a quarter or 2 because of the pandemic, but yes, we will continue to be working aggressively within our R&D, and our Tech Center Germany, which we had established a few quarters back, is working only on 2 things, which is building premium portfolio and developing affordable EV products.

Kapil R. Singh: Okay, Sir, and can you also talk about the Capex programs that you have and the R&D expenditure for FY2021, 2022? And should we build in any investment, further investments, into Ather now? As you said, product launches happen and, initial period, there could be losses.

Niranjan Gupta: So as far as Capex is concerned, you have seen our trajectory this year. We have cut down on Capex, and therefore, once the fiscal year 2022 comes, given the robust forecast on growth, as we said, by both RBI as well as by IMF, then we will revert to our normalized levels of Capex that we have been spending before that. As far as Ather is concerned, obviously it will depend on the launch, on the cash burn. They are trying to move very fast towards EBITDA breakeven as well. So we will have to see how it moves forward, and very difficult to take a call right now or give a forecast right now on this. On R&D, we will continue to spend. We had talked about over the last 5 years we probably have spent twice that of our nearest competitor. So that will continue to be an area of focus in terms of spends.

Kapil R. Singh: And could you give like numerical numbers on Capex? Like what are we targeting broadly in FY2021, 2022?

Niranjan Gupta: As we said, it will go back to the previous ranges. I will ask Umang to offline also got to connect with you, and probably he can provide a little more color on that.

Kapil R. Singh: Thanks.

Moderator: Thank you. The next question is from the line of Pramod Kumar from Goldman Sachs. Please go ahead.

Pramod Kumar: A good set of numbers. My first question pertains to the retail market share trend up from VAHAN, Sir. I do understand the limitations of the database, but those limitations are there for everyone, all the manufacturers, right, in different degrees, but when you look at the sequential market share in 3Q, which captures the season for you, and even if I extend it over to January, it should kind of capture most of the retail sales in the season. There, there has been a sharp dissuasion in the market share for us. So because it is not like a small fall. We are talking about 500bps of a contraction quarter-on-quarter in 3Q, and January is also kind of weaker. So could you care to comment on that? Because everything cannot be because of delayed sales and VAHAN not capturing it. We are looking at like-to-like data on the same VAHAN database with the same limitations. So can you please explain that anomaly?

Niranjan Gupta: So Pramod, firstly, I hope you are happy with the results that we have delivered, and I was looking forward to at this time what question will come. So that is on a lighter note, Pramod. My belief very strongly after tracking all this data is that, honestly, VAHAN is not generating revenue or P&L for us. It is our sales which is generating revenue and P&L on a consistent basis, and that has been a consistent delivery that has happened. We have talked about the lead and lag impact. Also it impacts differently, depending on whose sales are in the geographies like we are more on the North. We are more on the states, which are probably large percentage of rural. We have larger urban. So depending on the state where it captures as well. So I think we should now, basically, in my view, we should now look at the sales that we are having because, as I said, if you sell 2-wheelers, somebody is going to ride on it and therefore it does not get hidden in a warehouse. So honestly, we should just focus on what we are selling on consistent basis, and we have shown that on quarter-on-quarter and continuous basis, and I think there is no reason to now look at another data source for that. So that will be my long answer to your short question, yes.

Pramod Kumar: Okay and second is on the receivables side, Sir. Can you explain given the season what we had? There is always a build-up in September quarter, but how have the receivables trends kind of moved at the end of December quarter?

Niranjan Gupta: Receivables, Pramod, has tracked very well. In fact, if you see our cash flow management through working capital management, receivables management, we are now at a cash investable surplus which is higher than the pre-COVID levels now, yes, even accounting for the profits that we have generated. So our working capital has moved again back to a significant negative through receivables management. So they continue to track very well on the receivables side, and cash flow generation is something that I would say we as a company have done very well, which is also, by the way, getting reflected in the increase in the other income that you see in the P&L line.

Pramod Kumar: Thanks Niranjan and best of luck and I will touch base with Umang offline for the Capex and the associated loss there. Thank you.

Niranjan Gupta: Absolutely, Pramod.

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

Mukesh Saraf: Firstly, just again following up on the exports point that you had made, just trying to understand. I mean, obviously, a few years back as well, we have been trying to kind of increase our exports, and we did appoint certain distributors. I just wanted to check. What different are we doing this time on the export market? Are we like targeting different markets where probably the other, say, Indian OEMs are not present in? Or is the product that we are going to be now distributing there going to be differently branded? What different are we doing there on exports side?

Niranjan Gupta: Mukesh, thanks for the question. We are doing multiple things differently. First, the learning's that have accumulated by entering into wider network of many markets, we are now putting all those into use, and as we said, let us take example of Nigeria, where the product requires a more elongated seat because it is a commercial market and not a personal user market. So we have then designed the product differently to cater to that market. Colombia, actually prefers more premium in terms of motorcycles, so that is where we actually put in our XPulse there, and it is not about how much XPulse gets sold, but once that is in the showroom, then that attracts more customers who come in, and therefore then they actually may end up buying other products of Hero, but that actually brings customers in. Sri Lanka, for instance, of course, it is right now getting impacted by their own import regulation, but there, it is about they prefer much more stylish scooter compared to what gets sold in India. So all of these learning's, we have put into our products part of it, and that is what is getting launched quarter by quarter, and you will see more actions there. The second thing is about again in terms of focus on some key markets. So we are saying that 70%, 75% of our resources, of our attention, of our focus, will go towards the top 6, 7 markets, while the rest of the markets will remain, but it is therefore more of prioritization in terms of refocusing on the key markets. As far new entry is concerned, we will go selective. We will not enter or go across all the markets, and try to add but go after the big markets where the size of the pie is big, like Mexico. You have seen it is a big market, and we have tied up with a big distributor who has got a big base there, and that is the propeller. So I think there are the 3, 4 things. The other thing I will say is also within leadership within our company there is a renewed focus on the global business because not only this would offer us more in terms of the revenues, top line, bottom line kicker, but also from a portfolio point of view it is important to have a shift which then balances the risk profiles rather than getting concentrated in one country.

Mukesh Saraf: Right, right. Second question is on the domestic market. In the last quarter, you indicated that there was about an 8% difference between the growth rates of the rural and the urban markets, and also you indicated that the first-time buyer was more on the rural side compared to the urban markets. Any change in trends there that you could highlight?

Naveen Chauhan: Sure. So we have kind of shared that in terms of the growth rates, which differ in rural and urban. In some of the months, some of the quarters, there may be, as we have said, the market does not straight off change. With maybe marriages moving out of Q4 to Q1, we have got just 1 day in Q4, against 24 number of days like with last year, everything shifting to Q1, and there is some change, but it is not too off from the urban side, yes.

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

Jinesh K. Gandhi: Congrats on a good set of numbers. A couple of questions on the bookkeeping side. All the other questions have been answered. One is what was the other operating income in this quarter?

Niranjan Gupta: Your question is other operating revenues?

Jinesh K. Gandhi: Right.

Niranjan Gupta: Yes. So the other operating revenue for this quarter was ₹192 cr.

Jinesh K. Gandhi: ₹192 cr., okay, and secondly, would you be able to quantify the commodity hit in this quarter or the gross impact which we would have seen in this quarter?

Niranjan Gupta: I mean, if you look at the we have the LEAP-II savings, which I have said has accounted for more than 100 basis points, yes, probably more towards 125, 150 bps range in this quarter, then you will say that, given the material costs have come down by 50, 60 basis points, one could argue that around maybe 100 basis point is factored into this quarter itself within the results.

Jinesh K. Gandhi: Okay, okay, and lastly, with respect to dividends, considering that dividend distribution tax is no longer borne by the company, do we expect the payout ratio remains and then dividend per share to go up materially? Or how do we see that?

Niranjan Gupta: So I would not forecast a payout ratio. All I will say is that, over the last 3, 4 years, what we have endeavored to maintain is a consistent payout ratio. So we do distribute around, in the last 3, 4 years, you have seen us paying out 60% of the profits, and our endeavors are subject to, of course, for a certain situation, circumstances can always lead to some bit of deviations, but otherwise, on a longer-term basis that is the policy that we have followed, and we expect to continue to follow that policy of payout ratio.

Jinesh K. Gandhi: Thanks and all the best.

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

Ronak Sarda: Congrats on a great set of numbers and achieving the 100 million productions. It is a great milestone. Niranjan, my question is on market shares. If, I mean, if I look at even the Jan numbers, we have sustained nearly 250 bps market share increase. So now, I mean, going ahead from, where do you see the opportunities and challenges in consolidating of share and building upon this?

Niranjan Gupta: Ronak, there are huge opportunities for Hero. You look at premium segment. Our share is in single digits. We are, as we said, building our portfolio, and if you look at fair share, while, I will not give out a number, but you can assume what it should be. There is huge potential, as our premium is concerned, and we are absolutely focused, serious. As we said, Tech Center Germany is working on the product portfolio. We have started launching. The evidence is there in the market, and you will keep seeing action every year so there is a big opportunity in the premium segment. The second, of course, is scooter, where Naveen talked about there are corrective actions which have been taken from a product perspective. Pleasure has done exceedingly well in lots of markets, in markets other than its own stronghold market. Destini has done well, and these are the 2 brands on which we will ride on this journey on scooters. So there is again a big potential, as far as scooter is concerned. Third, of course, is the global business that we outlined. Again, global business, our market share is around, I guess, around 5%, if you take all the players that export out of India, and the strategies are clearly lined up, and as I said, while, I would not give out here a number, but we hope to positively surprise you on global business as we look forward in the next few quarters. So I think these are 3 big opportunities to clearly gain big market share because over the past few years we have really consolidated; and held the fort that we have, which is the commuter segment which is the entry and deluxe. So I think there is a big opportunity for us in terms of the market shares on that, and of course, in the new category, which is EV, we are very serious, and we are rapidly building the product.

Naveen Chauhan: Yes and add to that the kind of work that we are doing in spare parts. So there is a huge opportunity in that space as well, and with the way things are shaping up, I am sure that is going to be another good line of business for us.

Niranjan Gupta: Yes. In fact, Naveen, sorry I forgot about that. Next time, I think we should start talking about parts first given the whole opportunity which lies to capture that, and accessory and merchandise. Given the fundamentals that we have laid on the ground, and we did not talk about this before because in Hero we always talk about once we see some fruits of the drivers on the ground rather than talking ahead. Now, we clearly see the micro distribution, just like FMCG, what we have rolled out, is started giving now big results on the parts, and then you see the growth, and therefore, we are very confident of surge in our parts, accessories and merchandise business moving forward for the next few years.

Naveen Chauhan: Absolutely.

Moderator: Thank you. We will take the last question from Amyn Pirani from CLSA. Please go ahead.

Amyn Pirani: Most of the questions have been answered, but I just want to ask a larger question. If we look on an YTD basis, can you help us understand which subsegments of demand are yet to pick up? So for example, in terms of either end use; or in terms of rural, urban or regions. You talked about the student demand, which is a very specific category of demand. So are there any specific categories of demand, regional or use cases, which are yet to recover post COVID? And what is the outlook in the next coming months for those then?

Niranjan Gupta: Yes. Let Naveen answer. There are many, but over to you Naveen

Naveen Chauhan: Yes. So there are many, and there are, to start with, as we said, education sector. You can count on the huge amounts of exodus of migrant workers which moved out from urban centers, and hence that is another area which is it is still going to come back. One major area which I see still holding on is the replacement buyer, and contribution of the replacement buyer, YTD level, has been pretty low. We have been working on getting that demand and it is bearing fruits. I think that is one space that I see huge opportunity apart from those needs based on segment-based spaces basically.

Niranjan Gupta: Okay, and then if I may just add onto that. Even when you look at the focus of the budget on the Capex investments, so it is not just about the segment as well. It is about increasing employment, increasing incomes, and then as NBFCs and the financial sector is coming back into the space, the increase of finance penetration then offers opportunity not only for the current demand growth but actually bringing forward the demand from the future years. So that is the big opportunity that can get panned out because still there is a huge potential to move up from a finance penetration of 50% to maybe 70%, 75%. I have been getting lots of requests on the Capex numbers, and Umang has said that why do not we talk about it. That is fine. So we have said that we will go back to the Capex ranges which were there earlier, because in the COVID period we had cut those down, for FY2021. So FY2022, the Capex probably will be more in the range of ₹800 cr. to ₹1,000 cr. That is what we expect the range to be. We will keep calibrating it as we move forward, depending on how the progress happens on the overall demand and the supply side.

Moderator: Thank you.

Umang Khurana: Thank you, Aisha. That was the last question. Thanking everyone. Amit, Antique, thank you so much for hosting the call. I am glad to have spoken to all of you. Look forward to connecting after the call now.

Niranjan Gupta: Thank you, everyone.

Naveen Chauhan: Thank you so much.

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