



“Hero MotoCorp Limited Q3 FY2024 Earnings Conference Call”

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Management :



Mr. Niranjn Gupta
Chief Executive Officer



Mr. Ranjivjit Singh
Chief Business Officer – India BU



Mr. Swadesh Srivastava
Chief Business Officer-
Emerging Mobility BU

And **Umang Khurana**, Head - Investor Relations & Risk

Analyst:

Mr. Himanshu Singh – Prabhudas Lilladher

Moderator: Ladies and gentleman, good day and welcome to Q3 and 9 months FY24 Earnings Conference Call of Hero MotoCorp Limited hosted by Prabhudas Lilladher Private Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Himanshu Singh from Prabhudas Lilladher. Thank you and over to you.

Himanshu Singh: Thank you, everyone. Thank you, Yash. Good morning, everyone. Welcome to Q3 FY24 post result conference call of Hero MotoCorp. I would like to thank the management for giving us this opportunity to host this call. Now, I hand over the call to Mr. Umang Khurana, Head - Investor Relations and Risk. He will introduce the management and take the call ahead. Over to you. Thank you.

Umang Khurana: Thank you, Himanshu. Thank you for hosting us. Good day everyone. Welcome to the quarterly call post results investor call at Hero MotoCorp. Thank you for sharing your Saturday morning with us. As usual, what we have today is we'll start with our CEO, Niranjn Gupta sharing an update. We also have with us today Swadesh Srivastava, our Head of EMBU business and then fronting for Ranjiv is Ashutosh Varma, our Head of Sales Nationally as well. We'll open with Niranjn with his opening comments and we'll take it from there. Niranjn, over to you.

Niranjn Gupta: Thanks Umang and welcome again and good morning. It's a Saturday we know, but I'm sure that you will be excited seeing - you would have been excited seeing our results and we're more pleased as we go through your questions and our explanations on those. As you would have seen the results, we delivered a top line growth of 20% and a PAT growth, profit growth of 50%. This allows, as I've been saying earlier, our profit shape now allows to deploy more aggressively behind our growth priorities. We also declared interim dividend of ₹100 per share, which include ₹75 which is normal and ₹25 as a special dividend. Coming to the actions that we have been taking and you've been seeing us, a lot of actions in the premium segment. Our early success that we have seen on Harley X440 and Karizma continues. We've launched 2 more products, as you saw in Hero World, and thank you to those who were able to come to Hero World. I'm sure that you looked at our entire portfolio and liked it. We launched Mavrick 440, which as we said, bookings will commence in this month and deliveries will start in April. That will be boosting further our premium portfolio which is already looking very, very formidable.

We also launched Xtreme 125 in the 125cc segment to strengthen our 125cc portfolio and you will see deliveries starting on that as well. In terms of EV, we've been creating all the right infrastructure. We've collaborated with Ather, creating one of the widest charging infrastructure in the country. We've been expanding our presence to cities, to dealers, apart from creating dedicated VIDA Hubs as well and you will see a lot of action on the EV portfolio very soon in the coming, coming quarters. While we've been driving premium and our EV and of course strengthening our 125cc portfolio as well, we've been focusing on the non-product revenue streams as well as part of that. You've seen the growth that we have seen in the Parts, Accessories and Merchandise (PAM) business over the last 3-4 years, it's got an annualized revenue of ₹5,500 crores and therefore we decided to put an investment of ₹600 crores behind this, which will be spent over the next two years, which will take the capacity of the PAM business, as we call it, to ₹10,000 crores+. So, that's the news on the business front. There is more, but I would like to leave more time for the questions from you all.

Just wrapping up on the economy front. It was heartening to see that even though it was vote on account, the government continuing to be there on the path of the long-term growth and therefore the capex provision of ₹11 lakh crores is fantastic in terms of the numbers and on the back of the 2-3 years of ₹8-₹10 lakh crores of capex which means that this will trigger the job creation, employment, income opportunities at the bottom of pyramid. Overall, and that of course, the government has also ensured the fiscal prudence. Therefore, that means that inflation will continue to be in control. Therefore, we are very optimistic and confident about the economy in general and, of course, the prospects of auto sector in particular. Let me now hand over to the floor for questions.

Moderator:

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

We'll take our first question from the line of Gunjan Prithyani from Bank of America. Please go ahead.

Gunjan Prithyani:

Yeah, hi, good morning team, thanks for taking my question. My first question is on just trying to understand the demand better. I'm really keen to hear from you on the, what is the confidence around the sustainability of demand for the two-wheeler space going forward and what are we seeing in on the ground rural-urban, pent up demand, and the reason I asked this is because if I go through what's been coming as commentary from the other consumer companies or financials seem to be suggesting there is lot of weakness in the lower end of the market while two-wheeler certainly seems to be in the bright spot. So, just trying to understand, you know, what is the divergence, what are you picking up on the ground, and how confident are we of this sustaining over the course of next 6-9 months. I'll stop here.

Niranjan Gupta:

Gunjan, thanks for the question. As far as the demand is concerned, as we have been saying, we do expect the industry to grow double digit on revenue in the coming year at the least, and you've seen also similar commentary coming from other players in the two-wheeler space. Fundamentally, as far as, and premium has been outstripping the growth because India is the story of many Indias and gradually you see upper premium, middle premium, you see even in 125cc, if you segment it into two- which is the upper premium 125cc and let's say a non-premium 125cc, then that's also growing. So, you've seen every segment, you kind of see premiumization and that's growing. So, it's not just about the top end of India which is growing, you can see aspirations of people growing. At the bottom of pyramid, as I just said earlier, the heavy capex spend that's been happening, the digital inclusion that's been happening, the hospitality industry that you can see clearly which is lifted up, it's actually lifting the sentiment of the consumers of the bottom end. So, that will get manifested as consumption in different categories at different points in time and which is why you see this divergence. But we clearly see the positive signals which are emanating from the rural sector as well and we will see in the coming quarters growth picking up from that segment.

Gunjan Prithyani:

And anything that you can share in terms of how the growth rates are varying between rural versus urban for your portfolio?

Niranjan Gupta:

Not specifics Gunjan, but if you look at it in the festive for instance, we had a higher contribution coming from rural versus urban if you compare to the preceding few months, and even if you look at the latest, the enquiries which we track - for instance, overall the mix of the enquiries if you see, they were like in the last, let's say quarter two, quarter three, quarter four of FY23, it would be around like 40% enquiries coming from rural and 60% from

urban. Now that seems to be going up to 50% - 55% enquiries coming from rural. Now, therefore as the enquiries are starting to pick up, that will manifest in the consumption moving forward.

Gunjan Prithyani:

Okay. The other question, Niranjan that I had, was that this financing which seems to have certainly gone up a lot on the two-wheeler side and that's something which is you know very specific to two-wheelers within autos. It was much less penetrated couple of years back. Is that something which is really, is a pretty strong lever in terms of reviving the market, any thoughts around that?

Niranjan Gupta:

Absolutely, Gunjan. If you go back to our earnings call, I've been, we have been calling this for many years now that financing is going to be the big driver. If you remember, even when it was 40% - 45%, 50% penetration and that definitely is a big driver not just now but moving forward. I would even say that next three years, the single biggest driver from industry point of view will be the finance penetration down to the lowest strata, while from the economic point of view it is a capital expense, but from the industry point of view it is the finance penetration and finance penetration in terms of the entire ease of financing, the convenience of financing, and the cost of financing and the width of financing, the entire way and that we've been working with all the finance players.

In fact, we have piloted our e-Fin platform very recently that will be scaled up moving forward in the FY25. Now, what that does is aggregating all the financiers on one platform and make the processing of loans much faster and very convenient for the customers. So, it's just got piloted, it will be scaled up very soon, but clearly finance is the big driver for the next three years because that's where, it's not the ticket price which plays a big role, it is about the ease of financing and the cost of financing.

Gunjan Prithyani:

Okay. What is the financing penetration, if you can share that and I'll join back the queue.

Niranjan Gupta:

Sure. The financing preparation as far as the overall is concerned is close to around 60% to 65% and Fincorp is close to around 30% of that.

Gunjan Prithyani:

Okay. Got it. Thank you so much.

Moderator:

Thank you. We have our next question from the line of Chandramouli Muthiah from Goldman Sachs. Please go ahead.

Chandramouli Muthiah:

Hi, good morning and thank you for taking my questions. My first question is on the pricing environment. We seem to be heading into a slightly more benign commodity price environment, but I think Hero has been very proactive and taking opportunities to raise price, maybe a little more than peers in the industry over the past couple of quarters. So, just trying to understand, have we sort of covered for most of the commodity inflation we faced over the past couple of years in terms of passing on price hikes or is there a little more to go? And also, just related to that, have we been able to take any price hike so far in January and February? Thank you.

Niranjan Gupta:

Hi. I will just correct you. We have not been taking prices more than overall what is justified; as an industry because of our product and price positioning, we have ensured that we maintain and we keep evaluating this every quarter

in terms of the product positioning in the market and we keep adjusting it for the feature rich enrichment that we are doing. So, like-for-like if you see, it is very similar.

On the second question on the inflation cover, yes, all the inflation that you saw and therefore, and that time also we said, that we got to be sensible and therefore we took partial hit and partial pass-on and now that's all got covered and yes, the commodity environment currently is benign.

Chandramouli Muthiah: Got it. That's helpful. My second question is on the electric motorcycle plan that we recently shared in Jaipur at the Hero World event. It appears that we are going to start, maybe with performance motorcycles then premium and then slowly go on to Mid over time. So, just trying to understand the thinking behind that, given that you have historically been pretty strong at the entry level and with electric motorcycles, we seem to be looking to start with performance and premium?

Niranjan Gupta: Yeah. The thinking behind that is very simple, which is that if you look at the cost of putting EV in a commuter and lower segment, it will become hugely unaffordable because for a motorcycle, the distances that you need to cover and the power that you need means that you need twice the battery capacity or a like-for-like at least compared to the scooter. Already the scooter TCO's are still not at a level where it is viable and therefore you see OEMs having cash burn or cash investment you may call it. Therefore, it makes sense to start at the performance motorcycle where the customers can afford that price and gradually as the technology evolves and changes and you'll continue to learn and gear up, but clearly the EV next few years is going to be about scooters until the technology for battery changes.

Let me ask Swadesh, who's our Chief Business Officer for Emerging Mobility Business Unit, to talk more about the Zero collaboration and our thinking behind starting from the performance EV motorcycles. Swadesh, over to you.

Swadesh Srivastava: Yeah. Thank you Chandramouli for the questions. Niranjan clearly covered why it's going to be a little while before you see EVs coming in the commuter motorcycle segment. I think the industry is moving from high performance scooters to now affordable scooters, that's the story we need to make sure that we're leading that. On the Zero collaboration part, we are aggressively working on getting the high performance and also working on the higher end of any new technology, and a new product allows you to then make sure when you come in the affordable, you're much more prepared from technology and cost point of view. So, that's another reason to start from the top.

Chandramouli Muthiah: Got it. That's helpful. Thank you very much and all the best.

Moderator: Thank you. We have our next question from the line of Jinesh Gandhi from Ambit Capital. Please go ahead.

Jinesh Gandhi: Yeah, hi. Niranjan you talked about rural markets, you have seen some positive signals from the rural market. So, can you elaborate further on that, what are those signals and also more importantly post festive, how has been the retail trends and enquiry trends in the rural market on the entry level side?

Umang Khurana: Jinesh, you're a little, your voice is a little muffled. Maybe you want to try again?

- Moderator:** Mr. Gandhi, please use your handset mode.
- Jinesh Gandhi:** Yeah. Is it better now?
- Umang Khurana:** This is better, Jinesh.
- Jinesh Gandhi:** Yeah. So, my question was on the rural markets, if you can elaborate on that and secondly with respect to the retail trends post festive in the rural markets, are they holding up and growing on low base of last year, is that being visible on the ground?
- Niranjan Gupta:** Alright Jinesh, firstly congratulations on your move to Ambit Capital and hope you've settled well and Ambit Capital will get the benefit of your years of experience that you've had at Motilal. Jinesh, on the rural side as we said, see I think we make too much out of the rural demand signals. So, if you look at the structure of the industry, if you look at even within rural, you have more aspirational, more urbanized class. It's not two-wheelers, it's topping to be only about rural. So, I think that's the part of it and I just said that we take our cue more from the enquiries that are going up, from around 40% - 45% of the enquiries coming from rural, now the percentage of enquiries have moved to 50% - 55%. Now, clearly therefore, people are willing to buy, coming forward, that coupled with as the income level expands with all these capex going in and the finance penetration. This is just the start, and therefore, because the appetite or the under penetration is very, very clearly there, in terms of demand to be translated.
- And on the festive, post festive, yes the season in December typically is soft, but it has started picking up already, post to January 14th and you will see it going up. Actually, we're not worried about the month to month or a few days here, few days there, but the fundamentals of demand actually continue to be there. In fact, in the festive season, the rural contribution to retail actually increased by 300 bps as we have said earlier and therefore it will continue moving forward.
- Jinesh Gandhi:** Got it and second question pertains to the commodity cost influence in 3Q. We had seen the further increase in gross margin. So, are we seeing this trend to continue or now stability in commodity prices is there, is large part of the benefit fully reflected in numbers?
- Niranjan Gupta:** I think broadly I would say that the commodity is stabilized and it's, the margin improvement is not just reflectively commodity cost. If you see, we've done a lot of premiumization across our portfolio. So, it has a mixed element to it and it's got leap savings benefit into it, and of course, it's got partially the commodity benefits as well. In fact, our ICE margins are now close to 16% and this quarter, festive quarter, we did pump in a lot of money behind EV marketing to create our brand awareness. I will ask Swadesh to talk about the VIDA brand awareness very soon and we invested around 200 basis points in our EV business taking the margins overall to 14%. So, I think we had a good space where we are able to invest more behind our growth priorities. Swadesh, would you like to talk about how we have used this to increase the brand awareness of VIDA in this quarter?
- Swadesh Srivastava:** Yes. Thank you Niranjan. So, VIDA coming from the House of Hero, obviously, there's already a strong backing, but for a new brand, we have to make sure that people are aware that VIDA EVs are coming from the House of

Hero and we have partnered with the key cricket properties, we have partnered with key TV properties, we have been very aggressively going on social media and local print ads, and we have really seen the jump up in the last 3-4 months on what our awareness courses are. It is still early times, India is a large country and many Indias, as Niranjana always talks about, so we will continue to build on it, but we are on a good trajectory.

Jinesh Gandhi: Got it. Continuing on the EV side, so how have we seen our expansion in our touch points on the sales side and how do we plan to expand it further?

Swadesh Srivastava: Thanks for that question. Yeah, this year has been incredibly good for us in terms of expansion. Once we start putting our expansion action in place, we have been growing almost a city a day. Now, we are 100+ cities, 150+ dealers across 3-4 formats. We started with experience centers, then we are at present in Hero 2.0 stores across these 100 cities. We have close to 18 hubs already, VIDA hubs which are exclusive, small format exclusive dealership, and we plan to really take it up to 100 hubs next year and we will be present in maximum Hero 2.0 as that is also scaling very fast for the next year, and at the same time we are also present in Premia. So, you'll see these multistore formats, which will be present across and with our increasing portfolio and accessibility at every point, we definitely will see a huge scale up in FY25.

Jinesh Gandhi: Got it. Thanks, and all the best.

Swadesh Srivastava: Yeah. Thank you.

Moderator: Thank you. We have our next question from the line of Kapil Singh from Nomura. Please go ahead.

Kapil Singh: Hi, good morning sir. My first question is on, you talked about the fact that we will now be using the margin shape to fuel our growth in future. So, if you could just elaborate how you are thinking about this, what is going to be the strategy? Should we expect 100 to 200 basis points kind of investments to fuel growth and particularly for EVs, what we noticed is that there has been some discounting in the industry recently, so just to industry specific comment, is that you are noticing that demand for EVs have softened or is it that the profitability with these discounting is coming under pressure? So, just some color on that.

Swadesh Srivastava: Yeah. So, on the EV market side, as we have mentioned earlier, EV is in a huge transition right now. I think it's moving from the early adopters to early majority and the early majority is definitely going to look for upfront price parity between EV and ICE products. They don't want to compromise on their charging requirements, they don't want to compromise on their service requirements. So, any serious player is going to make sure that they are playing at the right price points, at affordability of these scooters, and making sure their charging infrastructure and service network is up to the best level.

Now, your observation about these price wars or discounting, I think that's just a reflection of when some of the players are not ready with the right products there, they might be trying to play a price discounting game. But as we have always said that we are here for a long run, EV is a marathon, we don't want to get caught up in a short-term price war. We want to make sure we have the right products at the right price points and closer to the customers and we know that with that strategy in place and our heavy cost reduction road map internally which we have, we

will ensure that we have the rest the right product in the hands of the customers. So, we are not too worried about it, but your observation is right. The industry is going through a price war.

Niranjan Gupta: And Swadesh you know, talk about are we launching in quarter one?

Swadesh Srivastava: Yes, yes, yes. Thanks for adding that Niranjan. So, as we have said that we are coming at, we're going to be playing in three price points within the quarter one of FY25, which includes our affordable and the mid segment with a very competitive offering in the market. With that in place, we definitely see that we'll have the right positioning to scale up fast in FY25.

Niranjan Gupta: So, Kapil, in short you will see our price action combined with the product action and not as a standalone, and expansion of the portfolio. Coming back to your first question, which you talked about the re-investment. See it's a dynamic margin management, you deploy behind growth priorities, and we've been saying this, the tramline for ICE margin is 14% - 16% and I've consistently been saying we have been on that path, we've ensured that we put the savings in premiumization, in the premium products and you will see that investment, the deployment, your capex or opex, more and more going towards premium, going towards EV, going towards the digital priorities which have been talking about at various times. It is the rejig resource allocation which is key to growth and good thing is that we have cash earned which we can fund with this, so we don't need to be in a cash burn scenario.

Moderator: Thank you. We'll take our next question from the line of Mumuksh Mandlesha from Anand Rathi. Please go ahead.

Mumuksh Mandlesha: Thanks much for the opportunity and congratulations on the continuing seeing good gross margin improvement despite the festive during the quarter. Sir, we had partly talked about earlier on the demand side, but can you share more thoughts on how do you see the growth in sub-segments of the motorcycle and scooters for next 1-year perspective? I mean in the context of that, premium and scooters have largely recovered in comparison with FY19, so how do you see next one year for the growth between the sub-segments?

Niranjan Gupta: So, let me ask Ashutosh who's our National Sales Head to throw some more light on growth moving forward, without of course Ashutosh giving that exact number, right.

Ashutosh Varma: Hi, good morning. I think from the sub-segment level, we would see the 125cc motorcycles continue to drive the overall motorcycle growth portfolio. That's the thing that's been doing very well this year and we expect that to continue for next year as well. Also, from a premium perspective, we've been seeing that, segment greater than 200cc is the one that's driving the growth, we expect good double-digit growth there to happen as well. Of course, it's being fueled by a lot of new launches, we've been a part of it too with our launches in X440, Karizma, and be it the upcoming Mavrick. So, this is where we feel that there will be a lot of traction. Of course, on the scooters 125cc that's another segment that has done well this year and we expect the growth momentum to continue and overall lead the industry to the growth number that largely everyone has been predicting for.

Mumuksh Mandlesha: Got it, Sir. Sir, lastly you are making large investments in the parts center. So, how do you see the piece of the growth in the parts and accessories revenue ahead?

Niranjan Gupta: So, you are already seeing that our growth in the parts and accessories and merchandise business and that is led by the micro distribution strategy which is going more retail on the similar lines of the FMCG that we talked about. Overall if you see from a time around, we used to have a business of around close to ₹3,000 crores revenue and that's now clocking ₹5,500 crores as an annualized revenue. This has happened over the last 3 – 4 years, the growth that has happened and therefore we are putting this further investment there. This investment will take up our capacity to ₹10,000 crores annual revenue equivalent and the capacity we have been putting up in our Tirupati plant, which is already there, so land is there, the capacity will be coming up there. Within the parts, accessories and merchandise, so we continue to see that double-digit growth for the next few years.

In fact, within this segment, there is a focus that we are also going to provide disproportionately on the accessories and merchandise part, because we do see a lot of potential on the accessories, as customers are becoming more aspirational and when they buy a product at that time itself, they want to fit some of the premium accessories, every product starts looking more premium and that's the aspirational India that we are talking about. And then the merchandise, which now is the right time for us given that we now have a robust premium portfolio. On the back of that, where it's the Harley-Davidson X440 or Mavrick 440 or Karizma, we're going to launch our range of merchandise moving forward and therefore creating this as a business itself and this will be dropping off on each other. So, on the back of the premium portfolio, we'll be building our merchandise business and the merchandise business will then rub off further on the premium imagery of our portfolio, and therefore in terms of our, it becomes more like an adjacent business and there are Premium dealerships as well which are there, and therefore all of this comes together to then power our merchandise business and providing the premium, more premium imagery to our entire portfolio. So, that's the entire plan for the parts, accessories and merchandise business.

Mumuksh Mandlesha: Thank you so much for the answer sir. Just only, what could be revenue for the parts in this quarter? Thank you.

Niranjan Gupta: Revenue for the part in the quarter that just finished, ₹1,426 crores in the quarter that finished and the corresponding period last year was ₹1,259 crores and just the preceding quarter was ₹1,354 crores.

Mumuksh Mandlesha: Thank you so much sir.

Moderator: Thank you. We have our next question from the line of Pramod Kumar from UBS. Please go ahead.

Pramod Kumar: Yeah. Thanks a lot for the opportunity. Niranjan, just wanted to understand, the launches what we've done over the last 2-3 years, if you can just help us understand what kind of brand action what we've done. The reason why I asked this is, despite multiple launches in segment, the market share numbers was not kind of adding up. I understand the efforts all put in, in the premium side and the scooter side, but individual category market share and even the overall VAHAN retail share does not reflect that efforts what we are trying to put in and all that. So I'm just trying to understand what is, how long will you, do you expect these kind of things to play out and probably if you can just help us understand number of brands what the company has put in over the last 2 - 2½ years because I understand some of the launches take time to play out and the investments needs to be done on the ground. So, if you can just help us understand the brand action taken so far in the last 2 - 2½ years and what is the kind of brand action one can expect over the next 1 year, Sir?

Niranjan Gupta: So lots of action Pramod on this front and you know very well that when you launch a new model, a new brand, you have to invest behind those to build a market share, they don't come overnight and which is what we've been doing and if you look at the launches that you've done, Xtreme in the premium segment earlier, now that is going to get bolstered by the stores because we didn't have the, at that point in time, the upgraded stores. It is now upgraded- 300 stores in 300 days, by March end we'll have 400, and next year we'll cross 500, 2.0 stores along with 100 Premia stores.

All of this Pramod, then provides the necessary arsenal for the premium portfolio to grow. And the next thing is, which I have been saying always is, that when you create a portfolio, when you create a "Win in Premium" you need a full portfolio because you always had the commuter portfolio, which is where now with Karizma coming in, with X440 coming in, with Mavrick 440 coming in, the portfolio is becoming very robust and this will have a rub off on our previous launches as well and therefore you will see the market share moving forward. We are bit optimistic, we are a bit more positive, and you can see the early successes in the recent period- whether it is bookings of the X440, bookings of Karizma, and then we're going to, in fact the Harley bookings have crossed 30,000 and our order book is almost now 3-4 months. The capacity we are ramping up to 10,000 of the 440 and the Karizma that I talked about earlier by March and the more work is in the play. So, I think you've got to have confidence in our strategy, most people have that. We do have, we are very confident playing it out. Each of these brands are new brands, power brands being built and our profitability, our fund position allows us to deploy and accelerate that moving forward.

Pramod Kumar: And if you just can help us understand the current level, how much of the volumes for you or the revenue split is coming from say, premium scooters and exports, assuming that exports will revive and it's a high growth category. So, this high growth category and focus areas for you, how much is the revenue contribution currently set for this quarter?

Niranjan Gupta: That's irrelevant, Pramod right now. As I've said that we will build this portfolio moving forward. So, therefore the contribution to talk about at this point of revenue is completely irrelevant. I think businesses are built on the long-term strategy and not on the short term, looking at that, yeah.

Pramod Kumar: Yeah, can you give ambition, what do you have the 3-year, 5-year view, so where would you like to take this part of the business because that will give you the due share of the industry?

Niranjan Gupta: Pramod, that's the right question, that where you would want to take it in 3-5 year's time. Clearly, we want to "Win in Premium" and you can see that with the players that we are having in the next 5 years, we would like to have a meaningful market share of the premium segment.

Pramod Kumar: Fair enough. Did I hear the 10% growth kind of a forecast for next year at the start of the Q&A, or its the revenue growth you're are asking for FY25?

Niranjan Gupta: Yeah, Pramod, so that was the industry growth that we have said, is that we expect double digit revenue growth for the industry moving forward for FY25 and obviously on the back of all our launches that we have done and more

launches to follow and investing behind those, we would expect therefore our growth to be higher and that means the market share gains.

Moderator: Thank you. We have our next question from the line of Pramod Amthe from InCred Equities. Please go ahead.

Pramod Amthe: Yeah, Hi. Thanks for taking my question. Considering the Government of India's push for alternative fuel and one of the competitor talked about CNG variant and you also had it in fact, that EVs may take a longer time to enter this, what have been your R&D for here and what's the outlook you have in that space, especially for motorcycle, CNG or any alternative?

Niranjan Gupta: Yes, so our R&D center has been working - first of all, we've been continuously investing behind research and development. In fact, our investments in our R&D is almost twice that of our nearest competitor if you look at the last five years, because we do believe in investing behind technology, investing behind brand, and that's what exactly we have been doing. So, our R&D is working on the flex fuel, as well as not just that, but also from the point of view of even within EV on the technologies, on the battery technologies, so there's a lot of work that's happening on the technology side. In fact, if you look on the ICE side with the BS6, which is also a big change, the CO2 and NOx emissions have come down by almost 90% and then of course we are improving our mileage which also means that less fuel consumption and that goes absolutely aligned to the Government's focus on less dependent on the fuel power and flex fuels are also on the works. Swadesh, would you like to just talk a bit about in terms of the technology side, what we are doing on the battery technology, the R&D side - just a flavor on that.

Swadesh Srivastava: Thanks for the question, Pramod. As Niranjan said, we have been pumping a lot of money in R&D and across the flex fuels and the battery side, we're looking at various chemistries, various form factors to make sure that whatever the need of that segment of mobility is, whether it's battery driven or flex fuel driven, we are ahead of the game and we are not going to slow down on either of the two because both these sides are very, very important and with our expertise at CIT in Jaipur and also our Tech center in Germany, we are looking and in fact working very closely with some of the external partners on keeping a tab and experimenting around new battery technologies as well. So, for us both are important and we will continue to make sure we are leading the way.

Niranjan Gupta: In fact, if you had come to Hero World, you would have been able to see the entire CIT and what we are doing on Flex Fuels. I think your associate Ravi would have seen in what we are doing on the flex fuel technology.

Pramod Amthe: Thanks. Sir, extending the same, when we will see the commercialization for these, because that's where I put the question- competition talking about it, will it make commercial terms for you guys to adapt it or when you expect it, not next year maybe 2 years down the line, any thoughts on that?

Niranjan Gupta: It will come in a phased manner because you will see overall different kinds of fuel, different kinds of power trains operating in the next 5-7 years. So, it's not about transitioning portfolio from A to B, but it's about providing this alternative and the options and always reminding the customer is the king. Customer will make a choice in terms of what type of vehicle and what kind of fuel makes commercial sense from customer point of view, but we are ready.

- Pramod Amthe:** Sure. Thanks, and all the best.
- Moderator:** Thank you. We have our next question from the line of Raghunandhan NL from Nuvama Research. Please go ahead.
- Raghunandhan NL:** Thank you, Sir. Congratulations on strong numbers. Sir, firstly on the upgraded 2.0 outlets, how has been the experience so far, the response from customers, how is it supporting bookings of premium vehicles and VIDA? Also, if you can share some thoughts on the initial response for Xtreme 125, any bookings numbers you can share?
- Niranjan Gupta:** Yeah, absolutely Raghu and thanks for complimenting on our strong results. Let me ask Ashutosh to throw some light on the Hero 2.0 and the Xtreme 125 early indications.
- Ashutosh Varma:** Yeah, thanks Raghu. One, the number of Hero 2.0 stores, the pace at which we are putting it in place is phenomenal. I guess this is the fastest ramp up in the industry. It's also delivering a very unique customer experience if you compare typical NPS scores what industry has versus what, let's say the stores are developing, these are far higher and we know that the customer service is top notch, customers are appreciating that quite a lot, leading to higher conversions as compared to our normal outlets and also as compared to the industry. This of course is just one part. I mean we are also setting up Premia stores, which are even higher and better NPS stores. We are getting good traction around, of course, in these Premia stores we have all the new 160cc and above models that we are selling from here and we are getting good traction there in terms of overall bookings that we are servicing for the models that we had launched in the previous quarter.
- Niranjan Gupta:** And on Xtreme 125, the early indication Ashutosh.
- Ashutosh Varma:** Oh yes. On the Xtreme 125 since the launch, we have been getting a lot of enquiries. In fact, the booking numbers are little earlier to share, but just to tell you the overall search query volumes is much higher than the leader brands in the 125cc sporty segment and we are confident that as soon as it gets in the market, it will get that response that we are seeing in the initial enquiry traction.
- Raghunandhan NL:** Thank you Sir and wishing all the best on Xtreme 125. The product ride was amazing at Hero World. My second question was on other expenses, 200 bps of EV marketing, brand building expenses, and there was also Cricket World Cup. Going ahead, given that the World Cup is behind, so the investments or marketing efforts, should that kind of reduce on a quarter-on-quarter, trying to understand how much would have been the additional expense in Q3 and by how much it would kind of reduce in Q4. And also trying to understand the triggers for margins further scaling up given that the company always has the target of 14% - 16% margin band.
- Niranjan Gupta:** Right. So, in terms of, yes, Q3 was a festive season, so clearly the A&P spent get elevated and then they come down in Q4. I think it, for indication while I won't give out a number, but what you can look at is the nine months of the other expenses for a trend line because that absorbs the highs and the lows of the quarter. In terms of the margins, I would just talk about the shape of the margins. So the 14% - 16% tram line, the ICE margins are at 16% allowing us to invest even more behind the growth priorities. Our shape of the portfolio in the next 5 years is changing. Clearly, if you project from today to 5 years down the line, you would see more of premium there in the

portfolio, whether it is scooters premium, whether an EV premium, whether it is the normal ICE premium. So, clearly structurally, the margin shape will be moving upwards, but of course it will follow with the scale that we achieve in these segments moving forward.

Raghunandhan NL: Got it, Sir. Just the last question, on the EV production ramp up, given that the product is being made available in most cities and Q1 we should see more launches, should we expect that 10,000 per month mark to be achieved by then? Thank you.

Niranjan Gupta: Well, let me ask Swadesh to answer that.

Swadesh Srivastava: Yeah, we have been ramping up our capacity quite aggressively not just in our Tirupati plant, but also across the supply chain and we are well placed to how we need to sort of ramp up from FY24 to FY25 onto the sales numbers, and yes, across all the three segments and across the total capacity required for battery, we will be very well placed to scale up fast in FY25.

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

Swadesh Srivastava: Thank you.

Moderator: Thank you. We have our next question from the line of Prateek from Nippon AMC. Please go ahead.

Prateek: Yeah, Hi. Just one question, you called out 2% of your sales being invested in the EV division, which if I annualize is close to ₹800 crores. Could you just talk a bit about this into how much of it is going into product development, how much of it is discounts, marketing, network expansion, supply chain management, etc.?

Niranjan Gupta: Sorry, I didn't get the question. What is ₹800 crores?

Prateek: No. So, you said 200 basis point was a drag right, of the EV portfolio?

Niranjan Gupta: That is for the quarter.

Prateek: Yeah, if I annualize, that's close to ₹800 crores.

Niranjan Gupta: Overall, for the year, if you look at it, it's close to between 125 to 150 basis point, where the quarter 3 is elevated because of the A&P spend of the festival. So, if you look at it, while we will not give out a split of this, but it is going behind, obviously there's a product because the unit cost, unit margins in the industry are low, being negative and then thereafter there is obviously marketing spends being done to build VIDA as an aspirational brand. Of course, on the capex side also, we are investing behind EV on the R&D side in those technology. There's a lot of action happening on achieving cost leadership, on reducing costs of how we make, but that's what we determine. Swadesh, would you like to talk about the effort that we are doing on reduction in the cost of the product.

Swadesh Srivastava: Yeah, I mean quickly coming into the cost field, but obviously one other area where we are putting our investment is building the very strong charging infrastructure, because we want to make sure that for the long run, we have all the building blocks for faster adoption and with us being the leader in those ecosystem pillars being there, more and more customers will adopt VIDA as their choice. On the cost side, we are definitely looking at everything from design, localization, simplification of the product, and obviously economies of scale. All of these are being aggressively worked between the product team, the R&D team, and the supply chain and production team, and we are looking at a significant reduction in the coming year and that will place us to play even more aggressive in some of the segments.

Prateek: Got it. The second question was Niranjan, look the ball is well played, right. Next year will be very strong for you in terms of premium, you yourself had called out premium is outperforming the industry growth, in sub-segments or overall. In terms of execution, what are you really doing so that you don't get, don't lose this opportunity, I mean I understand in terms of upgrading network, but apart from that just from an execution perspective, because within the industry if I see, you're the only player which has had such a strong model lineup and filling of white spaces. How should I think about, let's say execution of this, so that you don't lose this big opportunity?

Niranjan Gupta: I think this is a good question and let me just elaborate on this. So, you're absolutely right. I think in the industry, now with our launches which are there, we have the strongest model lineup in the two-wheeler segment. What we are doing you can see, it's not just being about product. So, there are product launches which have happened in the model- First is, we are ensuring that each of our models have some first-in-class and some best-in-class features. So, that's the one part of it. So, it is not just launching product which are just 'Me-too' or exactly the same, one part.

The second part is the marketing investments behind these, where we are going a combination of the digital and traditional marketing and you can see actually when you go to our digital marketing, our social media, what the efforts that we are doing, there's a very dedicated effort behind that to make the customer journey very different. That's the second part of the execution.

The third part of the execution is the stores, and that's why we've been harping on that a lot. If you were to launch these models with the same store profile that we had, then we would not meet with the success and that's why you see in parallel. So, these are not like different activities. These are execution activities because execution means finally we have to realize and extract, like you said, the potential of these models and that's where the stores come into play, Ashutosh explained. Within the stores, what we are doing is dedicated sales executives, because that's part of the execution. So, for all these premium model lineup, we talked about premium, we talked about EV, both these will have a completely dedicated sales executives who are trained for that and therefore that's the another execution part of it which is there and then on the marketing side, apart from what we talked about the traditional marketing, digital marketing, what we are doing and you would have seen is the rides - the entire Xdrags, it's all of these, the test rides that is getting ramped up big time, the test rides and there are of course the rallies on the rise that we have.

So, from entire perspective if you look at execution, all parts of what you require to execute on these models, they are in place. So, that's why we are confident and essentially if you look at the product, the positioning, the

placement, the pricing, the marketing, all of that is and it's part of the entire game plan, so that it's not just that by launching models that we will get success and which is what we call it, it's a complete all-round strategy and execution in place for that.

Prateek: Sure Sir, thanks. Thanks, and best wishes for the future.

Moderator: Thank you. We have our next question from the line of Mihir Jhaveri from ASK. Please go ahead.

Mihir Jhaveri: Yeah. Thank you for the opportunity. Just one quick question, sorry if I missed it. What is the inventory situation right now, if you can share? And also overall, are we seeing some moderation in retail demand or the retail trend continues to remain buoyant? These are just my two questions. Thank you.

Niranjan Gupta: See, as far as the inventory is concerned, that our range of inventory is 4 - 6 weeks and it continues to be in that range and the retail demand, I talked about is picking up. I mean in a sense they went down, the festive saw the demand picking up, post festive is usually a bit sluggish. Now, post middle of January, it's picking up. So, the underlying tone of the demand is strong and therefore we will see that momentum building as we move forward.

Mihir Jhaveri: Thank you. Thank you. That's it from my side.

Niranjan Gupta: In fact, just on the inventory, overall for the year, if you look at it, we have reduced our inventory. So, from a beginning inventory to an ending inventory, we have reduced the inventory in terms of the absolute levels and that's something - that's why our retail market shares are higher than our wholesale market shares.

Mihir Jhaveri: Thank you.

Moderator: Thank you. We have a next question from the line of Abhishek from Dolat Capital. Please go ahead.

Abhishek: Thanks for opportunity. Sir, what is your plan for gaining market share in ICE scooter segment and export?

Niranjan Gupta: I will talk about the global business and then I'll ask Ashutosh to talk about the plan for increasing market share in scooters. There is a lot of excitement with the new products that are coming. On the global business part of it, what we are doing is, we will be disproportionately investing behind the top 10 markets, which include the markets like Mexico, markets like Nigeria, like Colombia, like Bangladesh. So, while we have the footprint across almost 50 markets, the focus will be on accelerating growth in these markets. There's been a change of distributors that we've announced already for Nigeria and Nepal and there are launches which are planned in the global business as well. Ashutosh can you talk about these scooters, the excitement that's going to come?

Ashutosh Varma: Hi, Abhishek. Thank you for that question. In fact, if you look at this year's performance, we are the only OEM to have gained in the 100cc scooter market space. We've done well there and with that sorted out, I think the job for us is the 125cc and there we have a lot of exciting projects lined up for next year, we are augmenting our portfolio which will improve the market share there. Already, in this category, we have launched the Destini Prime this year,

later part of the year, and that has met with some phenomenal response, it's a great value proposition story and we expect to build on to all these next year.

Niranjan Gupta: In fact, just to add, I think we should be able to launch the 125 and 160cc in the first half of the FY25.

Abhishek: Okay. So, what is your growth target for the scooter and export segment for the next two years?

Niranjan Gupta: As you know, I would never give up a number, but the efforts which are there are very concentrated and therefore you see like scooter, Xoom which was launched 110 has received big traction and then the 125-160cc again are differentiated products with lots of first-in-class and best-in-class features, the larger wheels, so you will see that, some of you who came to Hero World would have seen these products and as these products come in, the scooter growth will rebound for us as well.

Abhishek: Sir, ICE margin is around 16%, as you mentioned, it means that we have lost around 200 bps because of the EV segment. So, how these losses will reduce in the coming quarter?

Niranjan Gupta: So, we've not lost, I will just correct a bit, we've invested 200 bps behind EV, because of festive the investments are obviously elevated, and these margins allow us to invest. So, we're going to build premium, we're going to build EV, and while building that, we've delivered a profit growth of 50%.

Abhishek: Okay, Sir.

Moderator: Thank you. We have our next question from the line of Kapil Singh from Nomura. Please go ahead.

Kapil Singh: Yeah, hi Sir. Just a follow up. You had talked about launching products in the affordable and mid segments, just curious to understand how do you define these segments in terms of price points?

Niranjan Gupta: Right, Kapil. Let me ask Swadesh to talk about that.

Swadesh Srivastava: Yeah. Thank you Kapil for the question. So, right now if you see, the market is sort of divided between products being upwards of ₹1.4 - ₹1.5 lakhs, there are few products between ₹1.25 - ₹1.5 lakhs, and then a fewer between ₹1 - ₹1.25 lakhs right, and then some products are going to come under ₹1 lakh as well. So, we believe that affordable is going to be closer to ₹1 lakh, like ₹1 lakh or below right, mid is going to be another ₹20k - ₹25k on top of it. I think the idea is that if people need to be able to buy these products very close to an equivalent ICE product right, and we need to make sure that the right value proposition on those pricing are available, but overall, ₹1 lakh or slightly below ₹1 lakh and then another ₹25k - ₹30k on top.

Kapil Singh: Actually, the operating prices for some of the premium scooters have come down more in the mid-range, right, would that be a right observation?

Niranjan Gupta: Kapil, see this is all short-term. So, what we are talking about is in a stable scenario. There will be months here and there, there are some offers and come down, but like what Swadesh has said, if you're very broadly look at the three

price points, not just from our perspective, but from customer perspective, it's ₹1 lakh, ₹1.25 lakhs and ₹1.5 lakhs. Give or take a few thousands here and there, that doesn't matter, but broadly, the three differentiated price points and importantly, what's going to happen is, it's not just the price point, eventually, it's the cost leadership that will determine the winners, because there will be a limit to what a player can bleed or get the hit on the unit cost and that's why we are focusing apart from portfolio.

Swadesh Srivastava: And also the whole package, ultimately EV is still not just the product game, right. So, with our charging infrastructure, which our expanded service network, which is already on top of how EV needs to be serviced, I think you have to look at the whole package. Yeah.

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

Niranjan Gupta: Thank you for attending the call and as we said, the quarter has been good with 20% top line growth and 50% profit growth. Our models are there. We have the strongest model lineup in the two-wheeler industry. We have all the wherewithal and the ammunition, and the fuel for powering growth as we move forward. Thank you.

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