

May 10, 2022

Asst. Vice President, Listing Deptt.,
National Stock Exchange of India Ltd.
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Scrip Code: 500182

Sub: Transcript of Earnings Conference Call for the quarter and year ended March 31, 2022

Dear Sirs,

Pursuant to the Regulation 30 read with Schedule III of the SEBI (Listing Obligations and Disclosure Requirements), Regulations 2015, please find attached the transcript of earnings conference call for the quarter and year ended March 31, 2022.

This is for your information and further dissemination.

Thanking you,

For Hero MotoCorp Limited


(Dhiraj Kapoor)
Company Secretary & Compliance Officer

M.

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“Hero MotoCorp Limited
Q4 FY2022 Results Conference Call”

May 04, 2022



ANALYST: MR. ANNAMALAI JAYARAJ - B&K SECURITIES

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



*Hero MotoCorp Limited
May 04, 2022*

Moderator: Ladies and gentlemen, good day and welcome to 4Q FY2022 Results Conference Call of Hero MotoCorp Limited hosted by Batlivala & Karani Securities India Private Limited. As a reminder, all participant lines will be in the listen-only mode, 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. Annamalai Jayaraj from Batlivala & Karani Securities India Private Limited. Thank you and over to you Sir!

Annamalai Jayaraj: Thanks. Welcome to Hero MotoCorp’s Q4 and FY2022 Earnings Conference Call. I will now hand over the call to Mr. Umang Khurana, Head – Investor Relations and Business Support. Over to you Sir!

Umang Khurana: Thank you, Mr. Jayaraj. Thanks so much. Good day everyone and welcome to the Hero MotoCorp’s Q4 and FY2022 Investor Call. Trust you are all keeping safe. On the call today we have with us Niranjana Gupta – Chief Financial Officer; Ranjivjit Singh –Head of Sales, After Sales and Marketing; Sanjay Bhan - Head of Global Sales; and Swadesh Srivastava - Head of Emerging Mobility Business Unit. We will begin as usual with opening comments from Niranjana and then open it up for your questions. Over to you Niranjana!

Niranjana Gupta: Thanks Umang. Welcome everyone again to Hero MotoCorp’s Q4 earnings call. Firstly, good morning, good afternoon, good evening depending on which part of the world you are joining from. I hope you; your families and your colleagues are staying healthy and doing well. These are interesting times to say the least, it is not just VUCA world but it may actually be VUCA plus or super VUCA looks like forces of nature are also branding and rebranding and launching variants as we do on the industry. More on that later, let me first cover the key highlights of our results.

You would have seen our results announced yesterday, we delivered INR 7,422 Crores of revenue and a profit of INR 627 Crores. For the full year, the revenue was INR 29,245 Crores with net profit of INR 2,473 Crores. Few highlights on that, within domestic business, Splendor is going from strength-to-strength and registering all-time high market share in its segment. As far as entry segment is concerned we have recovered strongly in Q4 with a market share of 68.5% in the segment. As far as premium is concerned we continue to build and extend the portfolio and we had recently launched 3-4 months back the XPulse 4 Valve which is in high demand as we see more launches will follow. Our PAM business which is parts, accessories, and merchandise, which is a profitable business, continues to surge ahead with a growth of 10% in Q4 and actually 24% in FY2022 which is powered by extension of range as well as deepening of distribution system.

Coming to global business it is truly and firmly on fast track now, having clocked 3,00,000 for the full year, we have a long way to go of course, but we are confident of this being one of the key drivers of growth for the company in future. We launched Vida brand in March, we are

excited about that, we will be doing our EV product unveil on July 1, 2022, as announced earlier. We want to ensure that through rigorous testing that the product we put in the market is of the right quality and safety parameters as we have always done earlier. For us, customer comes first and business will follow. As you have seen we have declared dividend of INR 95 per share factoring various parameters including payout ratio, absolute dividend, our cash position, etc. This also signals our positive outlook for FY2023 and our strong cash flow generation as well as our strong cash position.

Coming to outlook, let me talk a bit more about the coming year. One of the things that is an area of concern for industries across the board is the cost inflation, which is triggered now by geopolitical situation as we all know. Of course this will be a watch out, but we are no stranger to commodity inflations, we have been seeing cycles in the past as well as recently - We will continue to navigate this space through combination of judicious price increases, cost savings and of course broad-based portfolio growth including premiumization of certain models that we have.

Coming to growth, of course the macro indicators are really looking good, the GST collection we have all seen is all-time high in April, the e-way bills have picked up, almost in fact I would say all sectors of economy have opened up. Grain prices are high, they are augmenting rural income, the monsoon forecast is decent, and so on and so forth. It is clearly evident also that while COVID may not have gone away, but we have all learned now to get on with our livelihood and hence the consumer confidence and spending is bouncing back easily and actually solidly. Already we are seeing signs in April and we have no reasons to believe why two-wheeler industry cannot grow double-digit in FY2023. We will have multiple products and variant launches in the coming fiscal and added with all the actions already taken we are confident of gaining market share and hence growing ahead of the industry. So with that positive outlook that we have on the industry and our market share and our growth ahead of industry, let me now open the floor for Q&A.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Gunjan Prithyani from Bank of America. Please go ahead.

Gunjan Prithyani: Hi! Thanks team for taking my question. Two questions, firstly on the demand side you did allude that in April we are seeing early signs, would you share a little bit more color on what is it that we are seeing on the ground and where are we in terms of channel inventory plus there are a lot of supply chain constraints that some of your peers have been calling out, so maybe give us some perspective is there a challenge on the supply side that you all are also facing?

Niranjan Gupta: That was three questions in question one, but that is okay. Let me hand over to Ranjiv to address this. Ranjiv, over to you!

Ranjivjit Singh: Hi! Gunjan and hi Everyone, this is Ranjiv here, I am the Chief Growth Officer. This is the first time I am talking to all of you and I look forward to catching up with you and I will request Umang to set up some time so that I can get to know you guys better. I will just take a minute to

introduce myself. I have worked in some of the other companies where we may have interacted like Samsung and Unilever, etc.

So here April is looking good, so far we have had an upside, thanks to the marriage, the festivals, we have set off with a really good note with Gudi Padwa and many other auspicious days, retails have been good, dispatches have been good. As far as the inventory is concerned, we have actually been able to bring that down to about 6-7 weeks as we speak today, which is a better situation than we were at the end of the quarter, so that is another indication that you have got and overall the momentum is pretty strong when you look at the entry level we have gained market share month-on-month over January, February, March we exited for the full year at 62%, but in March we were at 74%, there were some campaigns that we did around mileage and that really helped reinforce the key strength of Hero MotoCorp and of HF Deluxe and build confidence in the market. Splendor has done extremely well we are at 82% market share in March, so that is again a great testimony of the momentum that we have got and overall it has been a good start to the year.

Gunjan Prithyani: Good to hear. No supply chain constraints right?

Ranjivjit Singh: Yes, so supply you know typically as we are going along there are supply shortages, on the chip side, that we face which are very similar to what the industry faces, but I must say and I must complement our supply chain team for having managed the situation well, of course demand outstripped supply in some of our key products like XPulse we have had a record month in March where we sold 5,000 in retails of XPulse and that continues. Glamour Xtec is also doing great in terms of the marriage season it is in good demand and as we get more supplies of the chips I am sure we will get even better in our positions across these segments. So we are managing the shortage, but overall I would say it is going pretty well start to April.

Gunjan Prithyani: The second question was on the margin. Now I clearly see some gross margin expansion in this quarter, so maybe just give us some sense on what has led to it, price hike, LEAP, mix, what is it, and why is the other expenses higher in this quarter?

Niranjan Gupta: Couple of things, one is the GM expansion is like you yourself answered is a combination of price hike that we have done as well as LEAP savings, we have always talked about our accelerated LEAP 2 program which has generated almost around 300 basis points of savings in this quarter as well, so that we continue to put pedal on because that is the way to navigate the high cost inflation era and you have seen us doing that in the last two years. On the other expenses there are some phasing things as you can see CSR expenses more towards Q4, so if you take those phasing into account I would actually advise to take a full year picture on the other expenses to get a sense of the overall annualized run rate of the other expenses.

Gunjan Prithyani: Thank you.

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

Kapil Singh: Hi! Sir, could you talk about what is the price increase that we have taken in current quarter and what is the cost inflation that we are seeing and the overall outlook for margins for next year as well?

Niranjan Gupta: As far as price is concerned, we took around INR1,000 at the ex-showroom level price increase in April first week. As far as cost inflation is concerned as I have always been saying it is very difficult to call out what the inflation will be, but effectively we know that all commodities are going on and our way of managing that would be a price increase, which we have done, we will calibrate it moving forward in different quarters and different periods as well as the savings program which we continue to accelerate and we will do on overheads as well. So that is the way to continue to manage. Obviously at some stage the commodities are expected to cool off and we will have to wait for that for expansion if any on the margin side.

Kapil Singh: Second question was on growth particularly for ICE industry do you see that obviously there is a base effect but beyond that you see that for next few years ICE industry can keep on growing and I see that for Hero in particular the scooter sales which used to be around 8 lakhs have come down to nearly 3 lakh so how are you thinking about it, will EVs be our growth engine now or are we equally focused on ICE as well?

Niranjan Gupta: As far as industry is concerned, we have to take into account the kind of shocks that the auto industry has gone through in the last 3, 4, 5 years. I have not seen at least any industry going through such shock waves and still being resilient in terms of being at the volumes that it is, whether it was BSVI, the cost inflation and the pandemic, shutdown and then the geopolitical things that are happening. I think you have to go back fundamentally to the penetration levels which are still underpenetrated as compared to we know if you take comparable Southeast Asian countries we are still probably at one-third of what they are and therefore there is a huge scope and it is not just the base effect it is in long-term and if we think that there is also the GDP factor and we know that our economic growth has been soft because of the pandemic and those reasons and which is going to bounce back as all the other indicators are. So I think if you combine the economic outlook along with the under penetration there is a solid case for industry to continue to grow for the foreseeable future on that basis, does not go away because of a few quarters here and there. As far as the scooters is concerned, yes, our scooter partly also in Q4 that we had brought down the inventory and therefore retails were really higher, we got job to do in scooter, we are going to launch variants around Xtec similar to what we have done in motorcycles and we will continue to peg at that in order to improve our market share. Apart from that, as far as EV is concerned, it is not that by focusing on EV we are taking the pedal off scooters, so we will continue to focus on scooter gain because we have not reached anywhere close to our same market share which is there, so there is ample scope there and of course as far as EV is concerned you know about the launch that will happen, so we will navigate both spaces.

Kapil Singh: So we expect ICE industry also to have a growth for next two years that is what you would think?

- Niranjan Gupta:** Yes Kapil, there is no reason to believe why the growth will get stalled.
- Kapil Singh:** Thank you Sir all the best.
- Moderator:** Thank you. The next question is from the line of Raghunandhan NL from Emkay Global. Please go ahead.
- Raghunandhan NL:** Thank you Sir for the opportunity. My first question was on EVs, the production is likely to kick off in AP plant from July onwards. Can you provide some details on capacity and volume expectations, also the Gogoro Hero tie-up was expected to come out with a product in CY2022 does the timeline still remain?
- Niranjan Gupta:** Raghu, let me just start off and then I will ask our EMBU Head Swadesh to actually pitch in. So as far as the capacity and capacity is modular, so depending on what we want to do and the cities and the plans which will get unveiled of course on July 1, 2022 we can always augment it, it does not require to actually create a huge mammoth capacity right now to feed anything, it more depends on our plans as to which other cities we want to go first and then next and then next. So I think that is where it will depend on and of course the volumes part as well. As we said the primary focus will be on quality and safety apart from of course giving competitive features and pricing I think that will be our core plan, but quality, safety will be first and that will also determine what our trajectory of launches and the expansion. As far as Gogoro and this one is concerned obviously we want to phase out things in a manner that once our launch comes with some space that comes we are still sticking to that in FY2023 we should be able to put in the product on the swapping system. Swadesh, you want to add anything?
- Swadesh Srivastava:** Thanks Niranjan. Hello Mr. Raghunandan, this is Swadesh, Head of EMBU at Hero, and Hello to everyone. I think Niranjan covered most of the points there, but just to bring that the focus on the Gogoro product it is well planned to be released this year and since we will be coming out with our own homegrown product very soon and want to make sure there is enough room for both the products to gain the market you will definitely see both these products coming out in a good period of time during this year and more details on the cities and the volumes you will hear on July 1, 2022.
- Raghunandhan NL:** Thank you Swadesh, all the best. My second question was on Ather, just wanted to clarify the investment amount, so Q4 investment stands at 1.5 billion and the total investment expected is up to 4.2 billion which was announced in January and this investment will happen in a staggered manner is that understanding correct, also any update you can provide on Ather valuation in the latest investment round?
- Niranjan Gupta:** Firstly let me answer the second question is the easier one, so I will refrain from valuation on Ather they can talk about it, I will refrain from that, but on the funding part of it, yes, I will convert into Crores usually associate billions with dollars and Crores with rupees, so allow me that, so INR 150 Crores is what we have invested, the total contribution that we talked about is

INR 420 Crores like you said and it is likely to happen in this quarter itself the balance which is INR 270 Crores.

Raghunandhan NL: Thank you Sir, that is very helpful. Can you share the spares number if you have it handy?

Niranjan Gupta: Yes, I can share the spares number if you want which is for the quarter it is INR 1,151 Crores the parts business revenue and last year the same quarter was INR 1,049 Crores and Q3 was INR 1,186 Crores, so that is a growth of 10% year-on-year. For the full year we did INR 3,933 Crores versus INR 3,178 Crores last year which is a 24% growth and as a contribution to revenue for this quarter it stands at 15.5% but better when we look at full year basis which is 13.5% to revenue, well above the 10%, we used to be in single digits if you remember some 3-4 years back.

Raghunandhan NL: Thank you Sir that is very helpful. I will come back in the queue.

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

Pramod Kumar: Thanks a lot for the opportunity and this is a question on the demand recovery side. I understand that you have seen pretty good retails in month of April now so far, May is good, but if you can just help us understand how much of this is kind of marriage season demand because this is the first season of it in the last three years right, so if you can help me understand outside of the marriage season market how is demand faring in April and especially towards the start of May so that we can get more confidence on the sustainability of this demand once the marriage season kind of rolls out or ends by around mid or May end or something like that so if you can just help us understand on the demand side in more detail, please?

Niranjan Gupta: Let me hand over this question to Ranjiv.

Ranjivjit Singh: Yes, Sure. The good thing is April, May and June right upto July 15, 2022 have very much auspicious dates for marriage and in fact it keeps building so May and June will continue to be very robust, besides that we have seen rural that being a driver as well, all of you know about the way agriculture is, the wheat procurement, the exports, all of that are positive signs that are coming through and we are seeing that in our business across two parameters one is in rural, the second is semi-urban so both of those are looking strong, so overall it is a I would say evened out quarter that we are going to be seeing as we go along, so we have had a very good Akshaya Tritiya that has been a very positive, last year was pretty truncated, this year was good. Padwa sales was positive, so we are seeing spread all across, even Ugadi was a good period that we had, so it is very well spread out is what we are seeing right now.

Pramod Kumar: Just as a follow-up to that Ranjiv, what level of inventory are you comfortable with because you are coming here as a Growth Officer and you come from an industry which is also pretty strong on a network on the electronics side, so if you can help us understand your perspective as to what do you think is the right inventory levels at which you should kind of operate because some of

your other peers have much lower inventory levels than what you guys carry and because that kind of has an impact on the incremental wholesale performance like for example if I pick April there is a good 70,000 kind of a gap between your wholesale and retail, retails being higher based on Vahan, so if you can just help us understand your philosophy around how you see the network and also any scope of network expansion from here on?

Ranjivjit Singh:

At the scale at which we operate we are the largest not only in India but also across the world. There is a certain amount of expectation that our customers have in terms of service levels, of having the product the SKUs available to them, we are pretty good with 6 weeks as a norm and I am really happy to say that today we are around that zone, so with the upsides in terms of the demand forecasting as well as better in terms of how we are matching the inventory to the demand I believe we are well placed. In addition to that we are investing and expanding in the secondary networks and that again requires the inventory to be placed in little bit more I would say far-flung rural areas and that again is working to our advantage. So six weeks given the complexity of our business the number of SKUs, the geographies that we operate in, I feel is a very good position so we are well positioned for this quarter and as we go forward.

Pramod Kumar:

Thanks a lot for that. Second question for Niranjana. Niranjana, we have always maintained that the medium to longer term margin range for Hero was 14% or thereabout, I think you mentioned a band as well historically, so how should one look at that going into FY2023 because we are going to have volume growth coming back which will be offsetting operating leverage after a gap of almost three years of decline for us and exciting new launches and most premium products getting out in the marketplace and the commodity intensity, so how should one look at this as in what outplays what and what kind of margin profile you will be comfortable as a CFO?

Niranjana Gupta:

Yes, the margin profile comfortable as a CFO is the medium range guidance that we have already given. Now having said that there are always, moving forward, headwinds and there are tailwinds. The headwind clearly is the cost inflation, commodity inflation and we have been taking very sensible price movements in the market because we do not want to destroy the demand and equally we do not want to hurt our margins too much and you have seen that calibration happening across the quarters and we have been sensible about that and we will continue with that. Second plank of course is cost savings which is a positive for us and a lot of programs and that will continue and you are absolutely right, the other positives that have come this year will be the operating leverage because we have been suffering with the negative operating leverage for the last couple of years and therefore that will come positive. Now how much that gets translated, etc., etc., the margin recovery will follow, but the point is that we do not give guidance for an FY2023, but these are the factors that actually weigh in both on the positive side and on negative side and the other of course like you talked about is premiumization, for instance all the Xtec variants that we are launching some which we have launched some more will follow, across all the models they are all priced between 7% and 10% higher than the base variant and they are doing well from the demand side. So I think we continue to navigate very sensibly from a portfolio perspective, from a pricing perspective, from

a savings perspective and now from a volume perspective which will come for the industry and for us should be well placed but we will have to navigate this space, the medium range guidance does not change.

Pramod Kumar: Spares in terms of as a percentage of revenue been holding the 15% mark for last couple of quarters, so should one expect that kind of momentum to continue going into FY2023?

Niranjan Gupta: You are talking about the parts business?

Pramod Kumar: Yes, Niranjan, domestic plus export.

Niranjan Gupta: Parts business we have been continuously moving it up, we used to be between 7% and 9%, we cross 10%, 12% now 13%, 13.5% there are organic measures that are already in place whether as I said increasing the range or the deepening of distribution. So percentage as of now maybe not a number to look at because obviously if we end up gaining huge market share on two-wheelers that revenue will go up and percentage may seem lower but having said that we do expect the PAM business to continue on the growth trajectory, we have lots of opportunities there.

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

Umang Khurana: Hi! This is Umang, may I request everyone to please keep your questions to two at a time, do come back in the queue right after.

Moderator: Thank you. We will move to the next question from Rohil Gandhi from PPFAS Mutual Fund. Please go ahead.

Rohil Gandhi: Hi! Thanks for the opportunity. I just had one question it is regarding the trade payables so I just wanted to understand your payable days have significantly gone up if you look at it from a full year basis can you just speak about that a little more?

Niranjan Gupta: Payable days, you could be looking at an aggregation, our credit periods have not gone up nor are there any overdue payments in fact if you look at the trade payables and balance sheet on a year-on-year basis which is this year's trade payable versus the last year trade payable, the trade payables are lower because of the lower production which has actually happened, when you convert into number of days sometimes at which part you are converting the quarter or the month or the fortnight because those numbers would not be available in published balance sheet, so you may arrive at a certain number which is not representative, but none of our payable days or the creditor days nothing has gone up everything is actually in sync, offline of course we can get chatting and we can give you more data if you require.

Rohil Gandhi: Thanks so much and good luck.

Moderator: Thank you. The next question is from the line of Amyn Pirani from JP Morgan. Please go ahead.

- Amyr Pirani:** Thanks for the opportunity. I just wanted to go back to the other expense line item, you had some very attractive financing thing in 3Q and I think in 4Q as well is the sharp increase to some extent to do with the kind of subvention you may have had to give or is it just a quarter-on-quarter thing that we should not really focus too much on?
- Niranjan Gupta:** No, it has got nothing to do with the financing subvention that is actually a very low number it is not material to the overall other expenses. It is by and large, one item of course is the CSR spend as you would see because of the pandemic we were not able to complete the projects which are completed in Q4, so that itself would account for almost around 50 to 60 basis points of elevated spends in Q4 making up for the full year obligation of the CSR and there are a couple of other items as well. So overall put together the better number to look at will be the annual number in terms of when we want to look at the trajectory and the percentage revenue.
- Amyr Pirani:** What is the financing share for fourth quarter and as you are seeing this improvement in retails, is there any sharp shift either ways and how do you think this number could move during the year?
- Niranjan Gupta:** I will first talk about the number and then I will ask Ranjiv to talk more about the financing and what he sees. The financing overall in Q4 was 54% and Fincorp share, so you have not asked I know the question may come up later on, is close to around 34% out of that, so the share is in the trajectory. Fincorp has been around 35% to 40% give or take here or there between the quarters, but our financing penetration has been going up, for the full year also is 50% plus now it is almost 52%, 53% compared to 49% last year, but let me hand it over to Ranjiv to talk about more about what is the financing picture, what is happening in the retail requirement that drives the growth.
- Ranjivjit Singh:** Sure, absolutely. This is an inflationary economy and we know that our customers really need that help in terms of financing. A large part 65%, 70% of them are first-time buyers, they do not have a credit history or a rating and so it is really important for us to be able to serve their needs and that is what we are doing, we are actually aggregating a lot of financiers who are helping these customers out and that is how you see the numbers also growing from the 49% to the 53% as we have seen and going forward that is going to be the name of the game and pretty much across not only urban but also semi-urban and rural we are going to be holding the hands and making sure that the financing is there for the people who really need it so that is going to be a big growth lever for us and a big growth driver and enabler for our customers to buy Hero products.
- Amyr Pirani:** Great that is actually good to know I will come back in the queue. Thank you.
- Moderator:** Thank you. The next question is from the line of Ashutosh Tiwari from Equirus Securities. Please go ahead.
- Ashutosh Tiwari:** We have shared that the inventory number as of currently is around six to seven weeks what is the number at end of March quarter?



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- Niranjan Gupta:** Seven to eight weeks.
- Ashutosh Tiwari:** Secondly can you share the April, retail numbers in April retail volumes?
- Niranjan Gupta:** We do not share the retail numbers, so on that we will not give anything.
- Ashutosh Tiwari:** But is it meaningfully higher than wholesale or how should one look at it?
- Niranjan Gupta:** It is higher than wholesale because our inventory has gone down so one can actually do a back calculation to see that the retail numbers are higher and that is what has led to inventory correction.
- Ashutosh Tiwari:** Thank you, that is all from my side.
- Moderator:** Thank you. The next question is from the line of Jinesh Gandhi from Motilal Oswal Financial Services. Please go ahead.
- Jinesh Gandhi:** Hi! Couple of clarifications, one is on the other expenses, is there any higher expenses related to the Vida brand launch, can you quantify the number if it is material?
- Niranjan Gupta:** Yes, so this also includes like I talked about this combined with the CSR spending overall put together, you could say around 80 to 100 basis points overall is the impact which is into other expenses for the quarter which includes of course the CSR expenditure that I talked about as well.
- Jinesh Gandhi:** So the Vida brand launch would be close to about 20, 40 basis points extra expense and secondly was there any impact of RM cost or commodity cost in fourth quarter or was it broadly stable on Q-o-Q basis?
- Niranjan Gupta:** No, RM cost actually got neutralized also because of LEAP savings, we had accelerated LEAP savings delivery in Q4 so that is why you see, also the way I think you guys also see the gross margin so that is not the definition of gross margin but let us say the margin net of material cost has moved up because of that so we have not seen that. Moving forward of course in any case in the industry the commodity cost, what is reflected in the indices and the market, comes with a lag of a quarter across the industry that is the general thing that happened so therefore it will come out in Q1, Q2.
- Jinesh Gandhi:** Yes, because many of your peers have indicated commodity costs were stable on Q-o-Q basis in the P&L so just wanted to understand that?
- Niranjan Gupta:** Yes, absolutely.

- Jinesh Gandhi:** Last clarification on the chip shortages is it fair to say that our core portfolio of 100 cc, 125 cc is not impacted by chip shortages?
- Niranjan Gupta:** By and large, yes, in a sense that apart from some of the variants that we have launched which is Xtec variants and some variants which have connectivity, etc., etc., so somewhere. If you look at our overall portfolio, the way to look at it is that as an overall portfolio what percentage is impacted in terms of volume numbers because of chip shortages or supplies or what is dependent on chip shortages that is immaterial, that is actually a very lower number and then Ranjiv also talked about how we are managing it. Ranjiv, any further comments on this.
- Ranjivjit Singh:** No, it is just that of course the shortage does affect at the top and the more connected ones those SKUs and those are in demand and as we keep working on the supply situation which is really something that is happening on an everyday basis we are seeing improvements in our supply. So we will continue to make all our efforts to make sure that we plug the gap because it is important to serve the customer at that end as well.
- Jinesh Gandhi:** Got it thanks, I will fall back in queue.
- Moderator:** Thank you. The next question is from the line of Hitesh Goel from CLSA. Please go ahead.
- Hitesh Goel:** Thanks for taking my question Sir. Just wanted to get a sense that government had said a few days back that no new EV launch can happen by any player for next one year as they are investigating this fire issue, is that sorted out because you are talking about launch this year right on Gogoro and your own product.
- Niranjan Gupta:** No, there has been a clarification that there is no official notification or direction from the government to that extent. All they are doing is they are examining the scooters that have caught fire and trying to understand that and then ensuring recall and safety measures but there is no ban by the government on EV launches, that is very clear.
- Hitesh Goel:** On the RM cost inflation for first quarter can you quantify, is my understanding right that there could be around 400 bps under recovery in first quarter and you would have taken half of that in the ballpark?
- Niranjan Gupta:** No, I would not quantify because this commodity inflation honestly I have even seen most of the big experts also faltering so I would not venture into that area, but yes we can all see that the commodity costs have gone up and that will impact Q1, Q2 and as I said we have actions lined up and obviously we will endeavor to recover the cost in more ways than one that would be our target, but as it happens we will navigate the space. The number seems very high what you are quoting here.
- Hitesh Goel:** Great, thank you Sir.

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

Mukesh Saraf: Hi! Good afternoon and thank you for the opportunity. Our first question is on the mix of your customers between say first-time buyers and replacement customers I think in one of the comments you evaluated it is about 65%, 70% is first-time buyers. I noticed that this probably is higher than what we have seen last year, so could you just give some comments on that and probably let us know what the numbers are?

Niranjan Gupta: I will hand it over to Ranjiv to answer about this first-time, additional and the replacement buyers.

Ranjivjit Singh: It is actually pretty consistent that is the nature of the market, personal mobility is a key need in this country again across all parts of the country participate in this and therefore first time buyers are in the range of about 65% to 70%, depending on the commuter segment could be a little higher and the premium segment could be lower, but on an average that is where it is and then there is the replacement and the additional which are pretty much equally split in the balance of about 30%, 35% so that is a very consistent thing. Our attempt as a brand being the world's largest and being a very inclusive brand is to invite more and more people to get their own personal mobility solutions from Hero MotoCorp and therefore we have the portfolio structure that we do and we have the ways in which we have the dealerships that are spread across the country, we have the widest network of dealerships, we also have the retail financing that enables our customers to be able to participate in that journey. Actually, I believe it is a very consistent story that we are building on and that builds trust for this brand over a period of time in a very consistent way.

Mukesh Saraf: Sure, thank you for the clarification. Second question is on EVs while we do get a sense of the high speed EV numbers there seems to be a lot of these low speed EVs with volumes obviously something that we would not be able to track because these are not registered and it is probably below the radar, so could you give a sense of are these even having any impact on ICE volumes especially in say rural and the semi urban markets which is where a lot of these low speed EVs seem to be getting sold?

Swadesh Srivastava: I think that is a good observation, definitely there is more sales happening on the low speed, low range segment although a lot of new products are coming out in the higher range, higher speed segment over the last few months and going forward, so you will see much more uptick there, but when it comes to impacting the ICE market or the ICE business, I think what you are seeing in the low range, low speed is a lot of people who have shorter errands to run, or, people who are in an age group or the demographic that they are not able to handle other form factors. They are really going into that. Right now it is not really getting into the ICE market but I think given the momentum I think new use cases are coming in for those form factors and going forward you will see the high speed and high range scooters also ticking up in the EV segment.

- Mukesh Saraf:** So is there a case for companies like yourself also getting into that low-speed segment to cater to that specific form factor requirement?
- Swadesh Srivastava:** See I think right now the EV industry is actually in quite a nascent stage so you will see different use cases coming up and I think we want to definitely play to our strengths and we have both our own homegrown product and the Gogoro partnership product, both are well positioned at the heavy and prominent use cases because you want to make sure that we are catering to those customers but over a period of time we will come in all the use cases and given our portfolio on the ICE side we will do the same on the EV side as well.
- Mukesh Saraf:** Great, thank you for that. I will get back in the queue.
- Moderator:** Thank you. The next question is from the line of Sabyasachi Mukerji from Centrum PMS. Please go ahead.
- Sabyasachi Mukerji:** Hi! I just have one question. Seek your comments on the income tax issue that was there in the news a month ago.
- Niranjan Gupta:** If you read note 9 to the accounts, we have explained our comments and our status on that and beyond that I would have nothing further to add at this stage.
- Sabyasachi Mukerji:** Thank you.
- Moderator:** Thank you. The next question is from the line of Nishit Jalan from Axis Capital. Please go ahead.
- Nishit Jalan:** Hi! Sir, thank you for the opportunity. I have two questions; firstly, on scooters in the last three odd years we have tried to do a lot of work on that front in terms of product launches, pricing intervention, we have also got into 125 cc segment. We have seen bouts of market share increase, but then again we have started to lose now. So what according to you is not going correct, what are your on-the-ground checks suggesting that despite having good products, despite having a reasonable portfolio we are not able to scale up market share, so any feedback or anything that you think is not working and how do you want to focus on that going ahead?
- Ranjivjit Singh:** We have actually had an excellent launch of Pleasure Xtec let me start with the 110 cc segment and the Xtec launch along with the campaign Ladki Chala Rahi Hai which was a very powerful point of view that was expressed to consumers and there was a lot of engagement around it, the market liked not only the product but also the brand building that we did and it has held very strong in terms of its market share, we will further strengthen our 110 cc segment as we launch more products as we said we will roll out more Xtec ranges as we go along in this year so watch out for that because that is going to increase our play in the 110 cc segment. As far as the 125-cc segment is concerned, the Destini Xtec has already been shipped we have dispatched that in March, expanding it to other markets within the country in terms of the inventory, and it has got a very positive and good response that we are getting across the board for Destini Xtec. With the

chip shortage situation getting evened out the Maestro Edge 125 cc which is the connected series will also become a far more powerful player so we are very confident across portfolio on the scooters that this year with this lineup that we have and the Xtec series we are going to really make a mark. So I can just reiterate that it is a very good lineup, the consumers are responding well and you will see us making gains as we go forward in the scooter segment.

Nishit Jalan: My second question would be on the exports front, that is one area where we have started to do very well in the last one year or so and we have appointed some good distributors in important geographies, but obviously our base is still much lower than some of the other players in the industry, so can we expect a growth which is much faster than the peers and a faster scale up on the export front so that we reach maybe 0.5 million export or plus in the next couple of years just wanted some color on that on the export side?

Sanjay Bhan: Thank you very much Nishit. I was 45 minutes into the call and I was wondering you guys have given up on our exports or are you still on it. I am glad you asked that question I think we have had a fantastic year as you can see, you can pretty much imagine the amount of support that we have got from all of you all these years inspiring us to keep going and pushing forward. We have just made the start we are getting absolutely aggressive about it, some of the numbers that you are already talking about are quite exciting we certainly look forward to getting somewhere close to that.

Yes, of course the growth trajectory is going to stay robust and solid. Going forward, we have this year itself done better than competition our market share increase gives you that story. All in all, we are on the right path now, the aggression is pretty much there and so is the sight for a very aggressive end state position, hopefully things will change much faster than they have in the past and we are pretty much on track. Thank you.

Nishit Jalan: Thank you and all the best.

Moderator: Thank you. The next question is from the line of Jay Kale from Elara Capital. Please go ahead.

Jay Kale: Thanks for taking my question. My first question is regarding the two-wheeler industry. As a market leader how do you see this industry of course we are approximately in FY2022 we are around 35% below the FY2019 volume peaks, now in FY2023 you mentioned about growth and we may have a double digit of maybe close to 10% growth as well, but in your internal assessment what growth level do you see is that you would be satisfied with on the low base because we have also seen around the close to 40% the price increase in the last three, four years so would you think that a 10%, 12% growth would be enough and what is your definition of a satisfying growth rate and in continuation to that do you think of the two to three years you will be able to scale back to the FY2019 volume peaks of industry of 21 million or you think that is a far-fetched given the price increases that we have already seen?

Niranjan Gupta: Right, good question. So very difficult to call out that what will be a satisfactory level, obviously everyone would like to go back to the FY2019 peak as soon as possible so that would be the definition of where the satisfaction lies. I think again I go back we got to look at fundamental underlying factors which play to the long-term growth of two-wheeler industry, all those factors are intact and I will repeat those, whether it is under penetration, the need for mobility, whether it is a pent up that has happened in the last 3-4 years, the big pool that is developing, which should actually now propel the replacement demands to be much bigger and of course financing because remember financing penetration should be nowhere less than 75% to 80% which is what four-wheeler financing levels are, at the moment they go up then it effectively means that you are preponing your purchases rather than saving and spending for that.

So I think the fundamental growth levers remain intact, how fast it happens we will have to see and of course, underlying or overplaying all that is the economic growth, the consumer confidence, rural income for instance has been there it is not that during pandemic the rural incomes suffered, we all know that the GDP came out of rural growth, it was about willingness to spend because of having not enough confidence about future, because of COVID and second is dependency, more dependency of family members on the same rural income because of migration of labor so I think that those factors have played out, now with all the sectors opening up, people have moved back to urban areas, the industries have opened up, crop prices are up, agri crops are looking good, income is looking good, but those are short-term factors again, fundamental long-term factors still remain.

When you have to look at the entirety of the long-term growth and that is how I would actually look at when you say double digits you are saying 10%, we are not saying 10%, but we are saying there is no reason why industry should not grow double digit, now double digit could be anything. So therefore growth is what we see based on what the indicators are very clearly, early signs are very positive and let us wait and watch this space.

Jay Kale: Great. Thanks and all the best. That is all from my side.

Moderator: Thank you. The next question is from the line of Raghunandhan NL from Emkay Global. Please go ahead.

Raghunandhan NL: Thank you Sir for the follow-up opportunity. On the raw material side just wanted to understand that the expansion which has come on a Q-o-Q basis that is helped by price increases being higher than the commodity?

Niranjan Gupta: Yes, you are absolutely right because the swing in the commodity meant that the Q4 the commodity costs were soft in that sense compared to the price hike, and the second factor as I said is the LEAP savings. A lot of our LEAP programs during the year when we look at it actually got culminated into Q4, so actually we got a huge savings out of those as well so that is around 300 basis points of saving that we got from our LEAP program. It is a combination of

three things as I said price, there is cost being relatively soft in Q4 and of course the LEAP savings that we are talking about.

Moderator: Thank you. We have the next question from the line of Pramod Amthe from Incred Capital. Please go ahead.

Pramod Amthe: Hi! Sir, thanks for the opportunity. The question which I have is you are still chasing the new capacity creation whereas industry has been sliding for some time, what is the rationale to still keep on adding the new capacity, is it more of a geographical balance which you are trying to achieve that is the first question.

Second is with regard to the same how do you see the capacity creation for EVs especially when we look at the overall two-wheeler industry it seems to be sitting with a lot of idle capacity and still it is trying to change the capacity when the auto PLI came in to add up capacity. What is that you are looking at is it as an industry player? How is it that operating deleverage versus the incentive? When you look at on the table, does it still make sense to change the capacity for the EVs?

Niranjan Gupta: Firstly, on the ICE side I do not know where you get the impression from but we are not adding capacity on the ICE side. What you see is of course the fiscal benefits which are available in Chittoor site and we know that the Neemrana site benefit had expired, so therefore it is more a geographical balancing and a physical balancing based on the benefits.

But, net-net we are not intending to add capacities at this point in time on ICE. As far as EV is concerned I would not talk about industry, different players have a different view on capacities and they are creating. All I can say is that no industry can have 30 or 40 players, so you are looking at EV industry which is in a nascent stage, there are players which have come in, there are more players which may come in. There will be a period of consolidation that will happen which is obvious and which happens in any industry. Once the consolidation happens and obviously the capacities will get rationalized, at that point in time from an industry perspective. As far as we are concerned as I said we will be calibrating it based on how we want to phase out our launches by cities, by towns, etc., Our capacity will be modular so we are not going headlong into creating huge capacity at the outset but we also know that we can calibrate it because it will be in modular fashion and I hope that answers your question.

Moderator: Thank you. We have the next question from the line of Raghunandhan NL from Emkay Global. Please go ahead.

Raghunandhan NL: Thank you Sir, I got disconnected. Just a clarification what I wanted was that has there been any deferral in providing a pass through to the vendors in Q4 which has also supported the gross margin, the second question I had was on accessory side that 24% growth in FY2022 is a strong number how do you see the potential for this business over the medium-term? Thanks.

Niranjan Gupta: Let me take the first one and second one I request Ranjiv to take on. There has been no delay or deferral in the pass through that I talked about, it is a combination of price increase of commodities hit being softer in Q4 and accelerated LEAP savings program which has come in more measure in Q4. On the parts where we have grown strongly by 24%, let me ask Ranjiv to talk about overall how does he see it moving forward.

Ranjivjit Singh: On the parts, accessories and merchandise business there is really foundational work that has been done in terms of creating the distribution system, creating a pull-based demand system, increasing the width and the depth of the business and all of that engaging with the mechanics with what we call as the Asli Heroes bringing in oil into our portfolio and getting that to contribute well it is a really good contributor overall to the business, even from the merchandising part, we are conceptualizing merchandise along with when we conceptualize new vehicles so that we get the target audience right so there are many initiatives that are in place to make this a really strong contributor to the overall topline and bottom line. So it is evolving very well I am quite happy with the way it is evolving.

Raghunandhan NL: Thank you Sir. Anything you can share about the premium vehicle side how you intend to strengthen the portfolio, the product launches, and any update on the Harley tie-up?

Ranjivjit Singh: I am very happy about for example in our premium the way XPulse has been accepted by the market it is really in demand. In fact there is a waiting queue for XPulse, the XPulse also got five awards very recently including the two-wheeler of the year, etc., so it is doing very well in that segment and we are defining the adventure segment, we are expanding that adventure segment and leading it. The Xtreme is also doing well, the retails have been much better and we are getting more and more customers to engage with the brand in various activities that we do across the nation. There are a couple of launches that are planned more in the 4V area which will come up before the festival season and again this is a portfolio that is going to see a lot of action as we go forward. So we are very pleased with the way the whole premium portfolio is shaping up, it is really a lifestyle, it is about image, it is about not selling the product but really involving consumers in the aspirations that they care about.

Niranjan Gupta: Let me just touch upon the Harley part of it which you asked. So, as we said I think I have said it earlier in the last few calls that the work on the product is on track and we have talked about that and that will come out. Timing, we will not be able to disclose it right now but we have started the work as soon as we have signed the agreement with Harley and that product is going to be right in the core key volume and margin area of the premium segment.

Moderator: Thank you. We will move to the next question from the line of Ronak Sarda from Systematix. Please go ahead.

Ronak Sarda: Hi! Thanks for the opportunity. A couple of questions on the financial side, so one Niranjan for you what was the overall investments in let us say the associate Hero Fincorp and Ather I think

you gave the number for Ather of 125 Crores, but was there any substantial investment in Hero Fincorp or any of these subsidiaries?

Niranjan Gupta: Ather was INR150 Crores and FinCorp in this quarter there was no investment we already had announced that Fincorp is raising capital and I think that we had announced earlier that our Board had approved so that outflow will most probably happen in this quarter but nothing in Q4 on Fincorp.

Ronak Sarda: So what would be the cash on books as of March 2022 if you have that number handy?

Niranjan Gupta: March 2022 we have actually put in our published accounts as well, our total investment size would be close to around INR10,000 Crores and out of that probably more than INR 6,000 to INR 7,000 Crores will be in investment in various instruments and the balance is in subsidiaries and associates and various strategic investments.

Ronak Sarda: Got it, thanks for that and the second question is on the loss from associates which is around 200 odd Crores for the full year can you help us break down this number between Hero FinCorp and Ather, and how do you see this number panning out let us say over the next 12 to 24 months?

Niranjan Gupta: I would not be able to give that number out in this call. You can have some discussion with Umang, he will get back with the details required, but broadly speaking this includes Fincorp also which had losses in the first half, they did have profit in the second half but there was a net loss and of course Ather will continue to be on cash burn for some period of time and Fincorp has had positive results in second half so one would expect Fincorp to turn out positive and therefore next year it should only lead Ather into that, as far as the loss is concerned on associates. As far as subsidiary is concerned they are performing well, there are no material losses there between the different subsidies and the JVs that we have.

Moderator: Thank you. In the interest of time that was the last question for today. I now have the conference over to management for closing comments.

Umang Khurana: Thank you everyone. Thank you for coming in, keep safe and look forward to connecting in FY2023 as well. Have a good day. Bye! Thank you.

Niranjan Gupta: Thank you very much.

Ranjivjit Singh: Thank you everyone.

Moderator: Thank you very much. On behalf of Batlivala & Karani Securities that concludes this conference. Thank you for joining us and you may now disconnect your lines.