August 21, 2024

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

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

**Sub: Transcript of Earnings Conference Call for the quarter ended June 30, 2024**

Dear Sir(s),

Pursuant to Regulation 30 read with Schedule III of the SEBI (Listing Obligations and Disclosure Requirements), Regulations 2015, please find attached the transcript of the earnings conference call held on August 14, 2024, for the quarter ended on June 30, 2024.

This is for your information and further dissemination.

Thanking You,

**For Hero MotoCorp Limited**

DHIRAJ KAPOOR

Digitally signed by: DHIRAJ KAPOOR
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Date: 2024.08.21 11:07:52 +05'30'

**Dhiraj Kapoor**
**Company Secretary & Compliance Officer**

**Encl.:** As above

# Hero MotoCorp Limited

# Q1 FY'25 Earnings Conference Call

# August 14, 2024

**The Management Team will be represented by:**

**Mr. Niranjan Gupta**
Chief Executive Officer

**Mr. Vivek Anand**
Chief Financial 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. Aniket Mhatre** – Motilal Oswal Financial Services Limited

**Moderator:** Ladies and gentlemen, good day and welcome to the Hero MotoCorp Limited Q1 FY25 Earnings Conference Call, hosted by Motilal Oswal Financial Services 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Aniket Mhatre from Motilal Oswal Financial Services Limited. Thank you. And over to you, sir.

**Aniket Mhatre:** Thank you. Good morning, everyone. Welcome to the post-results conference call of Hero MotoCorp. At the outset, I would like to thank the management of Hero MotoCorp for giving us an opportunity to host this call.

I now hand over the call to Umang Khurana, Head, Investor Relations and Risk, to take the call forward. Over to you, Umang.

**Umang Khurana:** Thank you, Aniket. Good day, everyone. It's that time of the year when the rains lift the mood and the sentiment across the country. Welcome to our post-results conference call. To discuss on the call today, we have our Chief Executive Officer, Niranjan Gupta; Vivek Anand, the Chief Financial Officer; Ranjivjit Singh, Chief Business Officer - India Business Unit; and Swadesh Srivastava, Chief Business Officer - Emerging Mobility Business Unit. As usual, we'll begin with short opening comments, followed by question and answers.

Let me hand it over to Niranjan.

**Niranjan Gupta:** Thanks, Umang. Hello and good morning and a very Happy 78th Independence Day, in advance. Our results yesterday which you saw, reflects an accelerated momentum in our journey to drive profitable growth. We saw ₹10,000 crores revenue being crossed for the first time, registering our highest-ever profit after tax with 36% growth.

We've seen a sharp sequential recovery in many of our segments, especially if I were to call out Entry in the last three quarters and in 125cc this quarter, while we continued to maintain a very formidable market share in the Deluxe 100cc and 110cc through our mega brands like Splendor and Passion. Our strong cash flow margin profile which we see will allow us to double down on building brands, especially Premium, as we move forward. The good, happy news is that Vida has also started scaling up; and our portfolio expansion will happen within this fiscal itself.

Coming to global business. It registered both volume and market share growth on a year-on-year basis. Bangladesh is a bit of a setback, but we are focused there on keeping our employees safe, in line with our philosophy of being a caring organization. The story of India is looking better than ever. The Union Budget is supportive of employment and economic growth; and benefits, as we are very hopeful, will percolate down to auto sector as well.

We have some exciting launches, as well in Premium segment, other than the Vida range expansion, so the calendar moving forward till the end of the coming fiscal looks really, really exciting. We'll continue to augment our retail experience, we actually crossed 500 Hero 2.0

stores. And Premia stores crossed 40, which will cross 100 plus by end of this fiscal. All in all, happy to report a great set of results both on top line and bottom line. We are gearing up for a big festive season. And with that, once again, Happy 78th Independence Day, in advance.

And let me now hand over to Vivek Anand, our CFO, for further amplifying the comments on financials. Vivek

**Vivek Anand:** Yes, thank you, Niranjan. Good morning. And thank you all for joining the call. And wish you all a very Happy 78th Independence Day, in advance.

I am pleased to report strong financial results for Hero MotoCorp for the period quarter 1 of financial year '25. The company clocked its highest-ever quarterly revenue of ₹10,144 crores, growth of 16% year-on-year. EBITDA stood at ₹1,460 crores, growth of 21%. And highest-ever PAT of ₹1,123 crores, growth of 36%. PAT, normalized PAT, growth of approximately 20% adjusted for exceptional item.

The ICE margins improved further to 16.4%. This improvement is driven by operating leverage, mix improvement, cost savings and pricing. During the quarter, the impact of spends on EV business on our margins is 198 basis points, which is a negative contribution of ₹181 crores and thereby taking the overall EBITDA margin down to 14.4%.

Going forward, we'll consistently grow volumes, thereby improving operating leverage; aggressively grow our Premium portfolio; continue to grow PAM business in double digits; intensify cost-saving initiatives across the value chain. While we do all this, we'll continue to invest behind new products and segments, including EV and Premium; going digital to enhance customer buying experience; and new product developments.

To sum up, we are optimistic about the growth prospects of two-wheeler industry. And with faster recovery expected in rural segment, ramp-up of 125cc portfolio and strong investment behind building power brands, we expect to grow ahead of industry.

On that note, let's open the floor for Q&A. Over to you, Umang. Thank you.

**Moderator:** The first question is from the line of from Mumuksh Mandlesha from Anand Rathi Institutional Equities.

**Mumuksh Mandlesha:** Sir, firstly, you mentioned about the rural market pickup. How are you seeing demand trends in urban and rural markets for your volumes, sir? And is that, going ahead, the rural spend do better than urban market also?

**Niranjan Gupta:** Thanks for the question. Ranjivjit

**Ranjivjit Singh:** This is Ranjivjit here. Happy Independence Day to all of you, in advance. Yes, indeed, we are seeing an uptick in rural. It's definitely a more balanced growth that we have seen overall of the 12% that we saw, led by rural. Our brands are really strong, our network is really strong. And I think the customers really trust the Hero brand as well as the service and the entire portfolio that we have available there.

With the kind of the economic movements that the government has made, with the kind of rainfall that we are seeing even as we get into the festival season, we see a better outlook from rural, so the sentiment is stronger, continues to be so. And we can see that the progress is pretty strong and good as we're going along, both across rural and urban. Of course, it's a stronger uptick on rural.

**Mumuksh Mandlesha:** Got it, sir. Sir, on the CNG vehicles we have seen in the markets now, how do you see this kind of product potential in the market? And any plans for us in the medium term, sir?

**Niranjan Gupta:** So the market will continue to see alternative powertrain technologies. As you already know, we have ICE which is there. There's EV, where industry is doubling down; and we are doubling down as well on that. We are working on flex fuels, ethanol-based fuels technology. In the long term, the hybrid technology is also being worked on. Plus, apart from that, of course, we are working on the improving fuel efficiency, because everything is around making the operating costs, being more efficient and more greener fuel.

That's around the entire powertrain technologies. There are multiple powertrain technologies being worked on. Eventually, in the end state, it could be mix of few powertrains that may work in the long, long, long term. So we continue to work. Our R&D continue to work and invest behind it, behind different technologies as I spoke about. So not commenting specifically on a particular powertrain technology.

**Mumuksh Mandlesha:** Got it, sir. Sir, this is to Swadesh, sir, on the EV outlook side, sir. And will the growth be better ahead for the industry? And also want to understand how the costs of manufacturing for EVs are coming down, whether related to batteries, motors, controllers; and how much reduction benefit you are seeing further in terms of costs side, sir.

**Swadesh Srivastava:** Thanks for the question. Yes, the EV two-wheeler market in India is definitely growing. There was a dip in April because of the change to EMPS, but after that, recovery has been very promising. And very clearly, it will end up being a 1 million-plus market, we believe. And, with our products and our network, we are pretty strongly placed to take benefit of the growth in the E-Two Wheeler industry.

On the costs part, yes, we are working very aggressively, and on the powertrain side, to bring the costs down by technological improvements; by localization; obviously, by bringing scale. And you will see that benefit coming out into our further launches as well. As we spoke, you'll see affordable products coming out later this year; and they will be at the backdrop of these cost reductions.

**Moderator:** The next question is from the line of Gunjan from Bank of America.

**Gunjan Prithyani:** Two questions from my side. Firstly, on the ASP and the gross margin performance for this quarter, could you just help us understand what drives this 3% Q-on-Q decline? Because from my understanding, there was also some pricing action taken during the quarter, right? So what explains that Q-on-Q decline? And how in the current commodity setup, the margins, gross margins, have also come off. Any thoughts around that?

**Niranjan Gupta:** So Gunjan, what we monitor is the EBITDA margins, as we have always said. And our EBITDA margin is 14.4% for the quarter compared to 14.3% for just the previous quarter. And of course, when you look at the quarter last year, same quarter was 13.8%. So the EBITDA margins have improved and obviously, as you heard Vivek talking about it, that the ICE margins within that have improved to 16.4%. And if the incremental investments behind EV of almost 200 basis point, that takes it to 14.4%. Even at that level, it is an improvement both sequentially and year-on-year basis.

**Gunjan Prithyani:** But anything to call out from a commodity or a mix perspective, particularly at gross margin level like that, something that we should be aware of? I mean, of course, it's improvement quarter-on-quarter but just that the gross margin performance seems a little inferior, so just trying to get a handle on is there any change in outlook to commodities or mix that we should bear in mind.

**Niranjan Gupta:** Gunjan, not really. The only thing I would probably call out is the parts mix which in this quarter has been low, as compared to the previous quarters. So that has an impact when you come to the gross margin weighted average, which is more a phasing and seasonality impact. And let me just ask Vivek to give out the numbers in terms of the spares revenue and growth and the percentage of it. Vivek, over to you.

**Vivek Anand:** Yes, thanks Niranjan. So a couple of points from my side. So let me start with commodity. I think commodity is likely to be range bound. During the quarter, we have seen the metal softening, oil price is steady. However, we've seen INR weakening. So quarter 1 in particular, we've seen a modest inflation of 340 per vehicle, which is almost insignificant, right. So that's one.

On the revenue realization, I think Niranjan talked about, on a quarter-on-quarter basis, we've seen that the revenue coming from the parts business is lower. And therefore, the contribution during the quarter is 12.5% versus 14.7% in quarter 4. That's largely because of phasing and seasonality impact.

**Gunjan Prithyani:** Okay, got it.

**Niranjan Gupta:** And if you forward into the next few quarters, this will get evened out, Gunjan.

**Gunjan Prithyani:** Okay, got it. That's pretty useful. And then the second question, on the Xtreme 125. Congratulations on the response there. In terms of the ramp-up, clearly the feedback from the dealers has been there is still limited supply, so if we were to think about how could be the volume run rate of this, monthly run rate of this? And how do we see the production ramping up through the course of the year? Some color on the numbers there. And alongside, while Xtreme 125 has seen a good offtake, the numbers on Glamour and Passion have still been very, very range bound, so is there anything to call out from on-the-ground feedback how should that -- both of these models pan out?

**Niranjan Gupta:** Sure, Gunjan. Let me just request Ranjivjit on the good story of the 125cc and then overall.

**Ranjivjit Singh:** Gunjan, thanks for the question. On the 125cc, as Niranjan did mention in his opening remarks, the 125cc has seen the sharpest increase from a 13% market share in Q4 to 20% in Q1, so it's been a very dramatic story of increase that's come across all 3 brands that we have. Glamour has increased market share, so has Super Splendor. And of course, Xtreme 125R has been able to bring in incremental customers into our dealerships.

The demand is definitely there for Xtreme 125R, not only in dealerships but also in our networks. And so far, we have been still filling in the pipeline on Xtreme 125R. And as we increase our capacity, we will be able to fulfil the demand. And we get a lot of customer queries that want to drive this lovely bike that's out there for them. Happy also to say that we were probably the only brand that gained market share in quarter 1 in the 125cc. So that went really, really well.

Lots of actions happening. Super Splendor, I think it will be unmistakable, the campaign that's there, which is "Thaat Unhattar Ke" which is the 69 kilometres per liter, which has been running across the country and really resonating because that is a key buying factor.

Mileage becomes a key buying factor. When you get that in such a comfortable and a fantastic motorcycle and a brand like Super Splendor, then it makes a huge difference. And we are seeing that positivity there.

On Glamour, a lot of positive advocacy is coming back as we reintroduced the Glamour magnetic. And Andhra Pradesh, Telangana East, where Glamour is strong, we're seeing a strong comeback. And lots more actions are coming in, including some new refresh products that will also come in to further fortify our position in 125cc. So, some of you will fondly remember that the kind of position that Hero has had in the past in 125cc. We are working on that relentlessly. The whole team is working on that, and our customers are rewarding us for that.

**Niranjan Gupta:** And just to add on your question on the capacity part of it, the Xtreme 125R. We are increasing capacity. Already it's, I think, gone up to almost around 25,000 per month. We are taking it up to almost 40,000 per month in the next couple of months itself, so the capacity is on the ramp-up as the product has received excellent response.

**Moderator:** The next question is from the line of Chandramouli Muthiah from Goldman Sachs.

**Chandramouli Muthiah:** My first question is just on the good volume trajectory we've seen in wholesales in 1Q. I think we were the only company to grow wholesales double digits in 1Q quarter-on-quarter. I think rest of industry was more sub-3%, sub-4% wholesale growth quarter-on-quarter. So just trying to understand, heading into festive season, where we are on channel inventory at this point and how we are thinking about managing that heading into the spike in industry demand seasonality.

**Niranjan Gupta:** Yes. So, as you will have seen in my commentary as well and Ranjivjit talked about at the beginning of the call, about the positive sentiment that we are seeing in rural of late and that's getting reflected in more categories as well so the signs are extremely positive about a strong festive, and we are gearing up for that.

And as we always do, our target is to, pre festive, move towards a number which can allow us to do a growth year-on-year on festive. And at the end of the festive season, we always target to be within the 4 to 6 weeks range, so we are managing our inventories accordingly in terms of moving up. So there's no abnormality in the festive buildup that we are doing.

**Chandramouli Muthiah:** All right. And just related to that, a follow-up. For the quarter, how would you say our retails were versus our wholesales just in terms of growth?

**Niranjan Gupta:** We can talk about our retail market share. So Ranjivjit, what has been our Vahan retail market share

**Ranjivjit Singh:** The best way to measure this is really, on the Vahan portal. And we had a sequential growth of 0.4% in Vahan market share. And as Niranjan was saying, the festival buildup and also with the less number of marriage dates in Q1 but therefore, there's a lot of anticipation and pent-up demand that does get built up. And we are available across the country, when you look at Tier 2, Tier 3; and also our channels, over 6,000 channels.

So there's a lot of excitement and, I will say, optimism on the way this festival will be. And therefore, getting the right model mix, the right kind of inventory and the brands that we have, all of that coming in is going to be, is a task always. Quarter 2 is the time when we really start building out towards the festival. And then after the festival, of course, it comes back to business as usual in terms of the inventory and the stocks.

The rains have been good. The marriage season, we saw the effect in Q1, but we know there are going to be some more marriage dates coming even in November, so there is definitely that outlook that guides us in terms of how we manage our stock movement over there.

**Niranjan Gupta:** So, just building on that, what Ranjivjit was saying. So our dispatch market share moved up sequentially from 30.2% to 30.3%, while our Vahan market shares have moved up from 30.7% to 31.1%, so our retail market share remain ahead of our wholesale market shares.

**Chandramouli Muthiah:** Got it. That's helpful. And my second question is just related to how you're thinking about the product pipeline going forward. I think we've had a strong set of product launches in terms of number of products over the past 18 months. You had the Karizma. You had Harley. You had Mavrick and the Xtreme 125. So just trying to think about the market share stats that you gave post all of these launches; and going forward, how we are planning to recover some of our lost market share over the past few years with potential new products. Just trying to understand how you're thinking about that.

**Niranjan Gupta:** Yes. So let me take segment by segment. So when we look at, let's say, the Entry and 100cc and 110cc, we've already seen last year the Passion refresh that we did, which has done very well, which has resulted in maintaining our formidable market share in the Deluxe 100cc, 110cc segment almost at 90%. 125cc, we launched Xtreme 125R, which has been received well, so now we have 3 strong brands: Glamour, which is getting revived back; Super Splendor, which is getting anchored on mileage.

And then we have Xtreme 125 which is appealing to the youth and actually between the Premium and the 125cc segment. It's like a Premium model within the 125cc segment. And there our task is increasing capacity, so I will say that the 125cc segment portfolio now is pretty strong. And the action there is to ramp up and keep increasing the market shares every quarter.

Coming to Premium. You're right. Last year, we've had a slew of launches. The portfolio building will continue, as I have said it earlier, so you will see some action on the Premium end within this fiscal, where we will have a couple of more models coming in within this fiscal. And then the other thing will be the action on the scooters, and the scooter action will be big on both ICE side and EV side.

On ICE side, Ranjivjit talked about Destini full-body change. It's a full-refreshed, new product. It will be unveiled very soon, probably as soon as maybe next month itself. And then it will be followed by models in Xoom, where we already have a 110cc, followed by 125cc and 160cc as well. So big action on the scooters which will happen within this fiscal.

And then coming to EV, where we have been talking about the range expansion, you will see portfolio expansion into mid and affordable segment within this fiscal. So, I will say, huge action on both scooters ICE and scooters EV as well as continuing to build the portfolio on Premium.

**Moderator:** The next question is from the line of Ajox from Sundaram Mutual Funds.

**Ajox:** Sir, if adjust for the spares also, sequential ASP seems to be down despite Vida and Xtreme picking up very strong. And Xtreme has a higher ASP relative to the other 125ccs, so what am I missing here, sir?

**Niranjan Gupta:** I think what you should focus on is essentially there is a mix impact there. There would also be the impact when you look at sequentially as I said, on the part revenue on the mix. The best way to look at is how is our EBITDA margins moving. And our EBITDA margins are moving in terms of, sequentially and year-on-year, both are up. And ICE margins are strongly up and that's allowing us to invest behind EV. For any further details, if there's more understanding you need, you can actually chat with Umang to take some of these and details.

**Ajox:** And sir, the 190 bps impact, is this a onetime impact during the quarter, sir?

**Niranjan Gupta:** I mean, as we've said, we'll continue to invest behind EV, but obviously, when your volumes are lower, your percentage impact seems higher. And as EV volumes will continue to ramp up in quarter 2, quarter 3 and quarter 4 and as Swadesh talked about our material costs in EV, with BOM restructuring coming down. Then one would expect a lower bps impact on the ICE margins, as we have seen compared to the quarter 1. Because that's the trajectory over the next 3-4 quarters. One should expect to see a lower impact just purely guided by the overall volumes and the BOM costs coming down with the new range of products.

**Ajox:** Got it. I'm assuming similar it will have been in 4Q also, right, sir, because we are investing at that point as well.

**Niranjan Gupta:** Yes. It was around 170 basis points. It's slightly up this quarter, but as we move forward, it will start evening out.

**Moderator:** The next question is from the line of Amyn Pirani from JP Morgan.

**Amyn Pirani:** I just wanted to check one thing. And while maybe it's still early days. On a Y-o-Y basis, adjusting for seasonality, the market share on an industry-level basis for you is still coming a bit low and is still declining, so two part question. A) is that something that you focus on? Or is it more segmental market shares that you're concerned about? And overall market share is not something that you're targeting.

And B) if you are looking at overall market share, how should we think about and what could be the driver of overall market share also probably starting to move up on a Y-o-Y basis?

**Niranjan Gupta:** Thanks for your question. We'll always look for the overall market share as well, but obviously the route to deliver overall market share is through segments. And that's why then you start focusing on each of the segments and how the recovery is.

And the drivers are very clear. Drivers are at the Entry segment and dealers where we have very strong, formidable market share. Our actions are focused on expanding the category itself. How do we drive the growth in that category. Whether it's through finance penetration, whether it's some affordable pricing, some micro actions. So how do we drive the category expansion at the bottom end of the pyramid.

On 125cc, I've already outlined the actions are to recover market share. We had a steep recovery which we have done. We'll continue to do that moving forward. And that will add substantially to the recovery of the market shares, even the first part, which is we're expanding the category, because one of the reasons for the overall two-wheeler market share looking the way it looks is because of the segmental mix in the industry, where the Entry segment was impacted by the incomes at the bottom of pyramid.

And therefore, the proportion of that segment went down over the last 2-3 years. And that's where we hold strong market shares. So as that segment gets expanded, one, through the rural uptick that we just spoke about; and second, through our action, automatically the mix impact of the market shares will start playing out.

And the third bit is the Premium portfolio building, which is a medium term, which is where we are very focused and very determined to win in this segment, which is where we continue to build with new launches. Our retail experience continues to get elevated. We've crossed 40 Premia stores. We'll cross 100 by end of March within this fiscal.

And there are actions on brand building. You already heard even Vivek and Ranjivjit talking about where we will double down on investment behind building these brands. So that will be the action on the Premium, where on the medium term we'll be gaining. Those are the actions on 125cc segmental recovery and expansion of the category, which will play in the category mix.

And of course, last but not the least and very important is the scooters, where our new launches will be coming up to reenergize this segment for us. So that will be our paths to increasing market shares, I hope that's clear.

**Amyn Pirani:** Yes. So just one data point: What is the share of financing in the current quarter?

**Vivek Anand:** It's 60%.

**Amyn Pirani:** 60%, okay. And just one last thing since you mentioned that you want to revive the Entry category. There, should we expect like new launches, a little more like refreshes and some other actions that you would take to revive that?

**Niranjan Gupta:** Amyn, it will be more like refreshes and probably a little more innovative financing. As you would have heard, I don't know whether I've talked about this we have launched what is called Hero Digi Finance, Digi Fin, which is actually an aggregation platform for financing which is all automatic or internet-based, where our response time or sanction rates are going up, the approval time is coming down very sharply. So as the adoption happens on Digi Fin, what it will do, Amyn, is to make financing more accessible to wider set of people who are right now probably not able to access it. And most of our financers are onboard on this. And this has huge potential because it will improve the accessibility. It will also improve the affordability because, as it becomes all digital-based, the entire cost of the chain actually comes down.

And third, it will also reduce, in a sense, those delinquencies that happens because we'll be relying more on the digital footprint of the customers. So actually a huge potential at the bottom end of the pyramid in terms of the financing. And eventually it could even lead to lower interest rates on financing. So this is a huge initiative that we have taken on with Digi Fin. Obviously, as we ramp it up, the results will start showing.

**Moderator:** The next question is from the line of Kapil Singh from Nomura.

**Kapil Singh:** Sir, my question is on Xtreme 125R and Vida. What is the reach? And how much will it get to? And we have started to see some ramp-up in volumes of Vida, so if you could elaborate, what are the actions that the company has taken that is helping this ramp-up in volumes?

**Niranjan Gupta:** Sure, Kapil. I'll request Ranjivjit to address 125. And then Swadesh, you can comment.

**Ranjivjit Singh:** Yes. So while I said that most of the dealers have already got Xtreme 125, but about 38%-40% of our networks, so far, have received the Xtreme 125. And obviously there's a lot of demand. And still our customers are very eager to get their Xtreme 125 and start riding it and enjoying it, so there is a pipeline. There is booking. I think the capacity expansion that we have really signed up on and making happen will result in customer delight as we go along. So this is very timely because we believe, before the festival season, this will be a key point of demand in the 125cc. And I think this expansion is going to help reach across the country. So that's on Xtreme 125. I'll pass it on to Swadesh now.

**Swadesh Srivastava:** Thanks, Kapil, for that question. As you know, for the last few quarters, we have been really building out the foundation for Vida, Vida being the new brand for us entering into the EV category. So across the board, whether it was brand building, whether it was expanding the network, now we are present in 175 cities. Close to 300 dealers are working with us, obviously different formats. We are present in Hero 2.0, we have Vida Hubs, which are dedicated dealerships, we are present in Premia. We have our 2 experience centers and building out the service network and all the training because we want to make sure that we cover each and every customer whenever we have any query or any trouble.

I think you are seeing the benefit of all this building which we have done. And yes, the charging infrastructure: Now we have close to 2,500 charging stations in collaboration with Ather. And all of this is really showing the benefits now. As you see, the numbers are going up. And we are very positive that you will see the steady growth through the months in this year. And with the addition of new products, it will just go up more and more. So you're just seeing the benefit of what all we have been doing last few quarters.

**Kapil Singh:** Okay, that's great to hear. And how should we think about the evolution of Vida or EV business profitability from here on? Because you've talked about cost reductions. So by when can we see that benefit of? Can you give us an update on where are we in the PLI journey? And overall, sir, if you could talk about the fact that if we go from, let's say, 5,000 to, let's say, 10,000 units per month, then should we expect the drag that we are getting from EV business, that will start coming down?

**Swadesh Srivastava:** Yes. So as I said, we crossed 5,000 in July. And you will see that we will only be growing further and further within this year. And portfolio expansion will improve that further, so both in the volume and market share, you will definitely see further growth coming in. As I mentioned earlier also on the call, we have very strong action happening on cost reduction in the BOM costs, in manufacturing costs; and plus, architectural changes which we are bringing, improvements which we are bringing in our portfolio. And sum total of all of that, you will see that we'll start moving closer and closer to profitability. So I will say that we have all the actions lined up within our R&D, with our supply chain base and in our product and tech teams, trying to bring architectural improvements. All of this, you'll see in the coming quarters. We'll be able to share with you how we are doing on profitability, but I just want to give you the assurance that all these actions are in place and they look very positive.

**Niranjan Gupta:** Also just talking, building about, Kapil, on the PLI. Our new range of products which are going to be launched as I talked about, we are expecting all of them to be PLI compliant.

**Moderator:** The next question is from the line of Abhinav Ganeshan from SBI Pension Funds.

**Abhinav Ganeshan:** Yes. Congratulations on a decent set of numbers. I have just 2 questions. So do you feel that the EV will become profitable by the next 6 to 8 quarters? That is first. And second, if you can give some trajectory on how we're going to expand our export presence. We've been talking about it for the last couple of years, seeing some steady progress. So if you can give some glide path on the same. And also, if you can break out, how much is Bangladesh as a part of our exports?

**Niranjan Gupta:** Right. Thanks. As far as EV is concerned, look. We will not be able to give a guidance on when profitable, but clearly there is a path. There is a path of, A) as the volumes ramp up, then the fixed cost gets absorbed over a larger, bigger scale so you get the operating leverage from that.

And the second part is the entire BOM cost architecture that Swadesh talked about. And third, of course, is the PLI compliance on the new. So I think, with the combination of these three, it will move towards the path of profitability, but honestly speaking, right now the focus on EV is building leadership and expanding the category and building up scale and volume. And therefore, I wouldn't call the 200 bps, 198 bps that Vivek talked about, as a drag but more as an investment to build scale for future.

As far as exports is concerned, as you rightly said, there's been a steady progress, obviously not as much as we would have loved to. And quarter 1, we have seen growth. Year-on-year, we've also seen market share increasing. We recently announced our entry into Southeast Asia, so Philippines; and Brazil these are big markets. As we start entering and launching into these markets, that will also help scaling up. And the other thing is, as Nigeria comes back, as you know, Nigeria is having its own trouble in the currency and the economy. As it comes back on track, that should help ramping up our volumes. Our Colombia unit has started doing better in the last quarter, as we saw, and therefore, we expect ramp-up up there as well.

Yes, Bangladesh is a setback, but right now the focus on Bangladesh is around people, taking care of the people. But overall, if you were to get a sense, our GB revenue is 4% of the overall company and Bangladesh is 13% of the GB revenue, so overall, Bangladesh forms around probably 0.3%, 0.4% of the overall revenues, but the operations will be coming back. The new government has come into place. The plants have opened up, so it's not something which is a medium or a long-term stoppage. It's a short-term disruption.

**Moderator:** The next question is from the line of Mukesh Saraf from Avendus Spark.

**Mukesh Saraf:** My first question is around the rural demand. Obviously you have kind of mentioned that things are looking quite good there. Just trying to understand: Could you give a sense of replacement versus, say, new buyers within rural markets itself so that we can kind of understand how this could kind of continue going forward?

**Ranjivjit Singh:** Yes. We continue to see first-time buyers actually coming in quite well even in rural, I think, and that's not surprising. It's quite a movement. And you do get to see, like, our brands HF Deluxe and Splendor getting the bulk of the interest and therefore the conversion there just because of the brand equity, the trust and the service network that we have.

So that is playing out, but the other very interesting phenomenon that we've seen is that even the 125cc has done well in rural markets as well. So it's definitely progressive in terms of what people are thinking in terms of what personal mobility can bring for them. And Hero continues to be top choice.

**Mukesh Saraf:** Right. And so the 125cc demand, is that also, I mean, largely first-time buyers? Or there you're seeing more of replacement.

**Ranjivjit Singh:** So it's just a couple of points probably lower than just the Entry level, but it's still very comparable in terms of first-time buyers when you look at the 125cc because, like Niranjan was explaining, with finance options coming out and the ease of financing that's available with Digi Fin that we have, the customers, their ability to take those leaps are happening. And they are looking at it a little bit more from the long term. I think there was a time post COVID and during COVID when there was a slowdown. We are seeing a little bit of an uptick out there, and yes, it is in 125cc as well.

**Mukesh Saraf:** Got that, got that. And secondly, on your 2.0 stores, I don't know if I missed it. So last quarter, you'd mentioned 400 outlets. Where do we stand now? And any kind of early feedback that we are getting from those stores in terms of customer perceptions? The feedback from there.

**Ranjivjit Singh:** Sure. So the Hero 2.0 stores that we've got, these are really prime estates. We can imagine that they're in the auto hubs. And then when the makeover is done and you don't clutter the store so much, the entire ambience really changes. And there is a sense of awe when the customer walks in. There's that feeling of space.

There's a feeling of the brands, their value propositions come through. People are able, without crowding amongst each other, to review them, see them, experience them, do the test drives, all of that. It makes a big difference. In terms of numbers, we've already crossed over 520, so we're over half of the number of dealers that are already converted to Hero 2.0 and upgraded to Hero 2.0. We're seeing a remarkable jump in terms of the happiness scores, in terms of customer satisfaction, the sales experience.

In addition to that, we are also upgrading our service centers. About 190 customer service centers have been upgraded. And you will see a completely new customer lounge, so when the customer is waiting out there for their vehicle to be serviced, there's a very nice experience that they will have. And also we've also expanded further to green dealerships, so a lot of green elements have been put into place in our sustainability efforts.

So all of these together create a remarkable impression and a new perception of Hero, and it's actually industry leading. So Hero 2.0, in that sense, brings in not only people who think about Hero for the first time, but also there are new customers who are coming in just attracted by the newness and the freshness of the way the Hero experience is. So that's on the one side.

And if you would like, I can also expand a little bit more on Premia because that's another very interesting project that we've taken on. And we very recently inaugurated the 42nd Premia store, which is the first in Delhi our Executive Chairman did the inauguration. And it's a beautiful store. And just like that, across the country, we've got these stores which have the range of our Premium vehicles, including Vida, Harley, Mavrick, Karizma, Xpulse and Xtreme.

The ranging is done in a certain way. The way the ambience is created is really reminiscing about the mountain lifestyle and bringing them into a space where they love the power of biking. And the effect that it's having overall in the city sales on Premium is also very positive, so I would say, if any of you can visit some of these Premia and Umang will help you with where they are.

It's also available on our website, but we would love you to actually go out there and visit and experience because these stores are getting like a 4.9 on an aggregate level on the Google My Business. And also the Naraina store got a 5; and the dealer was so proud to talk about that, that we've got a 5 rating there. So definitely would want you to see how we are shaping the change and the industry benchmarks as we go along.

**Moderator:** The next question is from the line of Jinesh Gandhi from Ambit Capital.

**Jinesh Gandhi:** First question is on PLI for Vida V1. Can you clarify whether we have applied for this and by when we will be getting certification for that?

**Niranjan Gupta:** So Jinesh, PLI, we'll be replacing the current range with a new range of products that will be coming in. And for those, the PLI process is on. And as I said, we are pretty confident that, when we're launching those ranges, which will start from October onwards, and we will have the PLI compliance October, November onwards.

**Jinesh Gandhi:** Got it, got it. And second question is on realization versus margin performance. On one side, we have seen weaker mix due to lower spare sales and about 50 basis point impact of commodity cost inflation, but our ICE margins have gone up by about 110 basis points on Q-o-Q basis. How do we bridge this dichotomy of weaker mix, higher RM costs but better ICE margin performance?

**Niranjan Gupta:** It's through the LEAP savings program that we're continuing to run. And that's what is helping us to improve the margins and, of course, the operating leverage.

**Jinesh Gandhi:** Okay, okay, got it, got it. And lastly, can you clarify, what would be our capex and investment in R&D this year?

**Niranjan Gupta:** Overall, R&D spend we continue to be around I think, last year, we spent around 2.2% of the revenue. And we've been continuing on this uptrend on the R&D expenses, so you can assume that our investment behind R&D and investment behind brands will continue to have the uptick as we build technology and build brands.

**Jinesh Gandhi:** Okay. And capex?

**Vivek Anand:** Capex guidance is between ₹1,000 crores to ₹1,200 crores per annum.

**Moderator:** The next question is from the line of Kumar Rakesh from BNP Paribas.

**Kumar Rakesh:** My first question was on the profitability of the EV business. So we talked about operating leverage to be one of the key drivers for improving the profitability. Now sequentially from fourth quarter to first quarter, the volume almost doubled in the EV business, although we haven't seen material improvement in profitability, so possibly it may take much higher volume to drive profitability.

So can you give some sense on at what level of volume we'll start seeing the operating leverage to start kicking in? And as part of that, is there any step function improvement as well in profitability, through either new technology which you are working on, the platform or the supply side, which we would see in the coming quarters? Or it would be a gradual improvement in profitability.

**Niranjan Gupta:** In terms of the operating leverage, obviously, while you're right in saying that the volumes have doubled, but they're not meaningful as yet. So for them to have a meaningful impact through the operating leverage, they'll need to reach a certain scale. I don't have exact number, but at least they need to be twice of the current monthly run rate to have an impact on the operating leverage.

The second part is on the cost structures, yes, the BOM architecture being worked on. It will be combination of both step and gradual, so you will see a step change the moment a new product line is launched, where they will come with a different architecture, and thereafter gradual movement from there on. As I already said, that we'll have the expanded range of products available within this fiscal. And they will be coming up with a step change in their architecture, and thereafter, the continuous improvement will be there.

**Kumar Rakesh:** Got it. And just a clarification on that side. So you had earlier spoken about that the expansion of portfolio in EV will be happening in the mid and affordable section, where the pricing could be a little more challenging. So that will not have a profitability impact?

**Niranjan Gupta:** No, that's getting geared with the cost structuring as well, so we're not adopting that, getting into affordable through price drop, but we are getting into affordable through cost structuring.

**Kumar Rakesh:** Got it. My second question was on the EV market share. I understand market is really small today, so it wouldn't make a lot of sense to look at the today's market share, but from medium-term perspective, how would you see your EV market share eventually trending towards because your scooter market share has largely been in single digit, mid to high single digit sort of a number.

And electrification, at least in the first stage, would be largely driven by scooters, so does that not create a bottleneck for you to expand your market share? Or how you are going to come around that.

**Niranjan Gupta:** Not really. Because, if you see first of all, you're right in saying that when you look at the current market size itself, it's not representative because it's like early stage of the category, where the category is just 14%, 15% of the scooters; and only 5% of the overall two-wheeler. So the game has just begun.

The second thing is that, the proxy of market share here vis-à-vis the scooters, ICE scooters, that doesn't hold true because, all the players who are holding the market share in EV scooter as of now, at least at the top end, all had zero market share in ICE because they were not in ICE at all. So this is disruption which is happening in the scooter category.

And actually our low market shares in scooter ICE benefits us here because, when the category gets disrupted, that's when one has actually a better chance in terms of gaining share. So we have everything to gain here. The game has just begun. Yes, we are at 5%, but as Swadesh talked about, we will continue to ramp this up. Swadesh, do you want to add anything on this?

**Swadesh Srivastava:** No. I think, Niranjan, you covered that the EV category is just building up. And it allows us to play a different game. And even the customers who are getting into EV buying are looking at it in a fresh way, right. And in the industry, we have 5% market share in certain cities, we are doing even better, but we'll continue to build from here.

**Moderator:** The next question is from the line of Pramod Amthe from Incred Equities.

**Pramod Amthe:** First question, to Niranjan. So if I can look at your ICE margins, which is at 16-odd percent, and look through the history of margin profile, you are almost near to the peak margins of around 16%, 17%, so how do you look at market share versus margins at this juncture? And do you see that market share being under pressure, is it worthwhile to deploy it to get better market share?

**Niranjan Gupta:** Well, you're absolutely right. We've always guided to 14%-16%. And our ICE margins are at the top end of the guided range, and as Vivek also talked about, from here onwards and as you started, we'll be doubling down on the investments. And from here onwards, obviously, having the margin shape corrected, it is allowing us to invest behind EV, as you saw.

And of course, what it also means is that doubling down on investment on our growth priorities, like Premium or the new models that we are launching. So clearly, moving forward, the growth on the market share becomes the number one priority given that the margins are pretty much in the range that we wanted to be.

**Pramod Amthe:** And related to that also, considering the buoyancy in rural, do you see more product interventions will be a good way to look at to get the maximum out of it?

**Niranjan Gupta:** I mean, honestly, I feel that we have a pretty strong portfolio of the products and the variants, whether you look at Entry or 110cc, 125cc Or Premium, of course, we'll launch more and scooter, I already talked about, and EV, but I think, the rural, it's more about the business model. It's more about the finance penetration.

And of course, our R&D keeps working on really low-cost models, so that is, in the medium term, looking at that, how low we can get there, but essentially it's so much about expanding the product portfolio there. It's about reaching out to the nooks and corners, through more affordable financing.

I mean they're looking at more down payments and affordable financing. That's the cash issue. And of course, as the economy moves up and there's a buoyancy that comes back, that also helps in the growth at that end, yes.

**Moderator:** The next question is from the line of Raghunandhan from Nuvama Research.

**Raghunandhan:** Just one question. Can you share the EV revenue for the quarter?

**Vivek Anand:** So we've sold 10,000-plus units. And the revenue in terms of absolute is around ₹125 crores.

**Raghunandhan:** Got it, sir. And at the gross margin level, what might be the loss, sir?

**Niranjan Gupta:** We measure only at the EBITDA level, which Vivek has already spoken about the 198 basis points. So that's the best way because there will be investments across the line into A&P and the other costs.

**Vivek Anand:** Yes, that's right. And I talked about at the EBITDA level, that translates to ₹181 crores.

**Moderator:** Thank you.

**Umang Khurana:** Thank you, yes. If there are no more questions: Thank you so much, everyone, for joining in. We look forward to connecting in person. Have a good day. And connect with you soon.

**Moderator:** Thank you. On behalf of Motilal Oswal Financial Services Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.