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Ladies and gentlemen, good day, and welcome to the Hero MotoCorp's Q2 FY '19 Earnings Conference Call hosted by ICICI Securities Limited. (Operator Instructions) Please note that this conference is being recorded.

I now hand the conference over to Mr. Nishant Vass from ICICI Securities. Thank you, and over to you, sir.

Nishant Vass, ICICI Securities Limited, Research Division - Auto and Auto Ancillary Analyst [2]

Thanks, Royo. Good day, everyone, and thanks for joining us today for this earnings call. From the management side, we are represented by Mr. Niranjana Gupta, the Chief Financial Officer; Mr. Sanjay Bhan, Head of Sales and After Sales; Mr. Surender Chhabra, Vice President, Corporate Finance; and Mr. Umang Khurana, Head Investor Relations.

Now I would like to hand over the call to the management for their initial remarks. Over to you, sir.

Hello.

Yes, sir. You may go ahead.

Hi. Recording from Hero MotoCorp. Thank you all for joining in the call. If you can hear us -- can everyone hear us? Can we get a message from the operator?

Operator [6]

Yes, sir. We can hear you. Please go ahead.

Umang Deep Singh Khurana, Hero MotoCorp Limited - Head of IR [7]

Okay. Wonderful. So let's begin with the call. We'll have Mr. Gupta, the CFO, first talk about the business highlights, and then we'll open it up for Q&A.

Niranjana Kumar Gupta, Hero MotoCorp Limited - CFO [8]

Hi. Welcome, everyone, to Hero MotoCorp's earnings call. You would have seen the results. Some of the key highlights are: our volumes grew 5.5% for the quarter. Our market share

(technical difficulty)

Operator [9]

Participants, please stay connected. We seem to have lost the line for the management. Please stay connected while we reconnect the management.

(technical difficulty)

Operator [10]

Participants, thank you for patiently holding your lines. We have the line for the management reconnected. Over to you, sir.

Niranjan Kumar Gupta, Hero MotoCorp Limited - CFO [11]

Yes. Hi. Welcome to this Hero MotoCorp's earnings call. You would have seen the results which we just published. The key points there are: our volumes have grown by 5.5% for the quarter. Within that, market share for Deluxe segment has improved year-on-year. And overall, market share in the motorcycles have been maintained.

Our revenue has grown 8.6% and within this, parts business has grown 24%. EBITDA margin is at 15.2%, while dropping sequentially 40 basis point, but displays the resilience of our portfolio and also our ability to navigate through costs and other headwinds, given our strong brands in the portfolio.

Our profit after tax at INR 976 crores is up compared to INR 909 crores of quarter 1 sequentially.

So with this, we open the call for questions.

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Questions and Answers

Operator [1]

(Operator Instructions) We have the first question from the line of Kapil Singh from Nomura Securities.

Kapil R. Singh, Nomura Securities Co. Ltd., Research Division - Auto Analyst [2]

Couple of questions. Firstly on demand side, there have been some cost increases because of insurance. So just wanted to check, in light of that, does your full year industry-growth outlook of double-digit remain intact? Also, if you can share some color on festive demand for first few days. How does it compare on a Y-o-Y basis or a like-to-like period growth? Second question is on the other expenditure. We have seen a significant increase on a Q-o-Q basis, so some color on what exactly has happened there. And how do you expect to shape up?

Niranjan Kumar Gupta, Hero MotoCorp Limited - CFO [3]

So let me start this, and I then hand it over to Sanjay. On other expenses, you should look at on a half-yearly basis and not on quarter-on-quarter basis. Because in quarter 1 call, also, we had said that, when you had asked, the expenses are lower and we have talked about the phasing. So as you see, in quarter 2, the expenditures are phased higher. And therefore, if you look at on half year basis, there's not so much of a difference as far as percentage of revenues is concerned. On the demand side and all this other stuff, let me hand it over to Sanjay to answer that.

Sanjay Bhan, Hero MotoCorp Limited - Head of Sales & After Sales [4]

Yes. Thanks, Kapil. Yes. I guess, we all know about what's happening right now. There has been this impact from insurance side. It softened the demand a bit, but I think specifically operations in terms of whether our annual outlook will stand, change, et cetera, no, I don't think we'll take a short-term view of these things. Clearly, there are these kinds of hiccups and setbacks that happen every once in a while. And so I guess, we need to also understand that the context of these setbacks is more temporary than -- in nature than permanent. So we do see while there's a bit of softening on demand side, was more flattish than growth at this stage, but we do expect things to turn around and move forward. And we are expecting, like we have said earlier, still hopeful for 8% to 10% growth in the festive season.

Operator [5]

(Operator Instructions) The next question is from the line of Raghunandhan from Emkay Global.

Raghunandhan N. L., Emkay Global Financial Services Ltd., Research Division - Senior Research Analyst [6]

Just wanted to understand that, firstly on the cost side, commodity inflation, adverse currency and also increasing competition. So is there any -- like, have we been limited in terms of our ability to take price hikes? And just wanted to understand, like, in the coming quarter, what kind of margin impact is expected? That is first question. Secondly, sir, on the working capital side, there has been an increase in debtor days. And so just wanted to know your thoughts. It's -- is it mainly because of the festive season?

Niranjan Kumar Gupta, Hero MotoCorp Limited - CFO [7]

Right. Thanks for the question. So as far as the cost and currency, commodities, there's a lot of questions loaded into one. What I would like to answer is, first of all, no one can forecast what the commodity will be or currency will be tomorrow. We've been maintaining that. What we need to see is that as far as the past is concerned, the last few quarters that we have seen, cost has been going up. We've been managing it judiciously through various things. We've been taking price increases as appropriate. Plus we've also been doing our savings program, and we've been growing volume in order to get operating leverage as well. So these are the ways in which we have been navigating our margin. And therefore, that's the way that we see us also moving forward. Whatever price increases we have been taking, those are being absorbed in the market. But obviously, we do very sensible increases from time to time. And so that's what I would say on the margin part. Can't give a short-term outlook on what will happen to margin, et cetera, et cetera. Our long-term guideline still remains, that our decisions are guided by the time line of 14% to 16% margin. And that helps us in terms of navigating through a profitable growth for our decision. As far as working capital is concerned, it is seasonal. You are absolutely right because as the stocks move up in the festive season ahead of the demand, therefore, we need to finance a bit, and therefore, the debtor days go up. And that, essentially, is just a seasonal thing and not any underlying change in our working capital nature.

Raghunandhan N. L., Emkay Global Financial Services Ltd., Research Division - Senior Research Analyst [8]

So just a clarification, sir. Based on the commodity and currency movement last 2, 3 months, do you think that whatever price hikes has been taken is enough to absorb it? Or would more be required in the next 2, 3 months? I mean, in the sense, would you be taking more price hikes, say, in January?

Niranjan Kumar Gupta, Hero MotoCorp Limited - CFO [9]

All the price hikes will depend on how the commodities span out in the future. You've already seen the price hike that we took in October, first week. And basically, it's been with the lag of a quarter. But with the lag of the quarter, we've been able to cover our cost increases. Moving forward, depending on how the commodities span out, we'll have to take decisions accordingly.

Operator [10]

The next question is from the line of Ashish Nigam from Axis Capital.

Ashish Nigam, Axis Capital Limited, Research Division - SVP of Automobiles [11]

So couple of questions on the financing side. If you can just remind us again, what percentage of our volumes are financed and within that, how much by NBFCs? How much by Hero FinCorp, et cetera?

Niranjan Kumar Gupta, Hero MotoCorp Limited - CFO [12]

I'll ask Mr. Chhabra to answer your question.

Surender Kumar Chhabra, Hero MotoCorp Limited - VP of Corporate Finance [13]

Yes. All of the currencies put in the market for Hero MotoCorp Limited is 36.5%. Out of which, 11% is from Hero FinCorp Limited.

Ashish Nigam, Axis Capital Limited, Research Division - SVP of Automobiles [14]

Sorry. I missed the first number. What percentage is financed?

Surender Kumar Chhabra, Hero MotoCorp Limited - VP of Corporate Finance [15]

36.5%.

Ashish Nigam, Axis Capital Limited, Research Division - SVP of Automobiles [16]

36.5%. Okay.

Surender Kumar Chhabra, Hero MotoCorp Limited - VP of Corporate Finance [17]

Overall financing for Hero Motocorp and 11% from Hero FinCorp.

Ashish Nigam, Axis Capital Limited, Research Division - SVP of Automobiles [18]

Okay. And the remaining also are mainly NBFCs?

Surender Kumar Chhabra, Hero MotoCorp Limited - VP of Corporate Finance [19]

Yes.

Ashish Nigam, Axis Capital Limited, Research Division - SVP of Automobiles [20]

So NBFCs have been talking a lot about margin pressures and liquidity issues. Are we seeing that on the ground? Has that led to any softness in demand?

Niranjan Kumar Gupta, Hero MotoCorp Limited - CFO [21]

So on the NBFC part of it, if your question is related to Hero FinCorp or question related to the -- their ability to finance two wheelers?

Ashish Nigam, Axis Capital Limited, Research Division - SVP of Automobiles [22]

The ability to finance two wheelers. NBFC beside Hero FinCorp.

Niranjan Kumar Gupta, Hero MotoCorp Limited - CFO [23]

No. None. We've not seen any impact on that in terms of financing penetration.

Ashish Nigam, Axis Capital Limited, Research Division - SVP of Automobiles [24]

Okay. And in light of this, what is the plan now for Hero FinCorp? I've -- we have a 41% stake now that it is INR 250 crore investment. How has that changed?

Niranjan Kumar Gupta, Hero MotoCorp Limited - CFO [25]

No. This was a rights issue. So therefore, everyone prescribed in an equal measure. Our stake has just mathematically gone up by 10 basis points, which is not meaningful in any way because everyone subscribed. So the stake broadly remains the same.

Ashish Nigam, Axis Capital Limited, Research Division - SVP of Automobiles [26]

And the plans of this 11% of our sales being Hero FinCorp. Is there any plan, 3 years out or something that you can share?

Niranjan Kumar Gupta, Hero MotoCorp Limited - CFO [27]

No. It's difficult to give a forecast on that. All we can say is that Hero FinCorp continues to grow, not just from two wheeler, but also overall as a company in terms of their loan book side. And also, while the NBFCs are impacted, as you yourself mentioned, on liquidity, et cetera, Hero FinCorp has been served well because of its rights issue. So they have enough liquidity to fund their growth as of now.

Operator [28]

The next question is from the line of Karthik Chellappa from Buena Vista Fund Management.

Karthik Chellappa, Buena Vista Fund Management, LLC - Investment Analyst [29]

Sir, my first question is on our medium term...

Operator [30]

I'm sorry to interrupt you, Karthik, but we can barely hear you. Could you please speak a little louder?

Karthik Chellappa, Buena Vista Fund Management, LLC - Investment Analyst [31]

Sure. Is this better?

Niranjan Kumar Gupta, Hero MotoCorp Limited - CFO [32]

Yes.

Karthik Chellappa, Buena Vista Fund Management, LLC - Investment Analyst [33]

Okay. Sir, my first question is on our medium-term capacity expansion plan. So as I understand it, with the Andhra plant coming online, the first phase sometime, let's say, towards the end of 2019. Now capacity goes up to almost about 11 million units. Given that the industry itself was set to see 2 important events, one is the ABS, CBS coming up in 2019 and the BS VI in 2020, are there any plan to push back those CapEx? Any view of how the demand will play out beyond FY '19?

Niranjan Kumar Gupta, Hero MotoCorp Limited - CFO [34]

So first of all, as Sanjay pointed out, we still see demand growing at 8% to 10%, right? Because the macro fundamentals of Indian economy in general and two wheelers of auto sector in particular still remain intact, right? It is for the players like us and others to navigate through these headwinds appropriately. So that's one. Second thing is in terms of, therefore, the capacity expansion also, basically, displays our confidence in our demand projection. Third thing is with Andhra, the capacity doesn't go up to 11 plus. It actually goes to 10 plus by end of next year. Although both these plants, which is Andhra and Gujarat, if need be can -- stays up to actually move to 11. So therefore, that's the plan, and we feel that the plan is a very balanced plan in terms of the capacity expansion. And we don't see any need to push out the CapEx. And the other thing is that the underlying penetration levels when we talked about the demand. So those are the stories. You talk about the MSP increase, more income with the farmers. You talk about underlying growth of Indian economy at 7% plus still. You talk about consumers, credit, financing opportunity. You talk about underpenetration. So all those are macro stories, and they all remain intact despite whatever their short-term headwinds could be. So in a nutshell, we don't -- we still have confidence in the demand growth. And therefore, the capacity expansion will continue. So we're not going to push back any of the CapEx.

Karthik Chellappa, Buena Vista Fund Management, LLC - Investment Analyst [35]

Perfect. Sir, my second question is, earlier, you had mentioned that your -- at this point of time, you are not feeling any pressure from any of the NBFCs who are actually financing two-wheelers. But in case, let's say, over the next month or so, if any of your main NBFCs experience any issues, would you have like a Plan B product you don't lose out on the festive sales or the festive demand?

Niranjan Kumar Gupta, Hero MotoCorp Limited - CFO [36]

We don't see that all. If at all, the financing percentages, we expect it to only go up. If you study the NBFC problem that is there, it will be with the large corporate loans rather than the smaller consumer loans. So it's more about their asset liability mismatch where they have the short-term financing, which they have done borrowing, and they've done a long-term, what we call, lending. Now these are not long-term lendings. These are just 24 months of EMI that they work with. The NBFC problem is a 5-year, 7-year, 10 years lending with a 1-year and 2-year borrowing. So this is a margin-creating segment for them and a segment where they just need to finance for 2 years. And you've even seen the percentage is actually moving up. So we actually don't foresee any problem. But not even in the festive season, but even for the medium term.

Karthik Chellappa, Buena Vista Fund Management, LLC - Investment Analyst [37]

Sir, your new launch pipeline also would remain unaltered?

Niranjan Kumar Gupta, Hero MotoCorp Limited - CFO [38]

Absolutely unaltered.

Operator [39]

Next question is from Ruchit Mehta from SBI Mutual Funds.

Ruchit Mehta, SBI Funds Management Private Limited - Analyst & Fund Manager [40]

So you said that you still have 8% to 10% full year volume growth guidance or an outlook. But just to better understand that, as you said that there has been some flatness in demand, per se, and if the festive seasons continue to see that, do you think that you would look at more of incentives whether they be discounts, or whether they be promotions or schemes, et cetera, to sort of try and push to the volumes? Or would you just let market forces determine how volumes really play out?

Niranjan Kumar Gupta, Hero MotoCorp Limited - CFO [41]

We will see how it plays out. And obviously, as key leaders and key players in the market, we -- as I said, we'll keep balancing and keep watching this space closely. Sanjay, would you like to add anything on this space?

Sanjay Bhan, Hero MotoCorp Limited - Head of Sales & After Sales [42]

Yes. Ruchit, thanks for the question. I think it's an interesting question, which also opens up a little bit of a window for us to explain to you exactly what's playing out in the market. Now this whole insurance thing, obviously, has created a bit of doubt. But like I said, it's -- the first few days have been -- because the question then was very specific. The first few days have been flattish. And I think most of it is -- go through the kind of setback or some sort of shock, that preliminary shock that increased insurance did lead to. What I also mentioned that we'll continue to grow at a steady 8% to -- still expect that 8% to 10% growth in the festive season. So we do not see a flattish festive season. We do see an improved festive season from here on. The issue on whether that will stay -- act doesn't arise because we do -- we are reasonably confident that things will turn around. Where since, obviously, over the last 2, 3 days, we've seen some -- clear improvement in terms of people walking in. The whole piece of this insurance is being absorbed is also very important. For instance, the way we've tackled it, and I'm sure that's the way most people are tackling it. It's also kind of reflecting in the financing that is happening. Obviously, there has been a slight improvement in the contribution over the last 5, 6 days. The net impact of the insurance increase to an EMI of 24 for a year -- month, year -- 24 months of EMI is about INR 200 on a 45,000 ticket size. So that's what it is. So therefore, it's been taken care of adequately. And we do expect to restore the confidence back in the market. The fundamental macroeconomic drivers are very, very robust. And that's what all of us must understand. And if we recognize that, and we do believe that there will be a significant improvement as we get into the season -- in the middle of the season. So there you are. I think we should have a good, decent season. I think in the mid-term, we'll continue from there on.

Niranjan Kumar Gupta, Hero MotoCorp Limited - CFO [43]

And just to add to what Sanjay said. Some part of these early days of the first 5, this has also becomes a confusion. So one is the amount of the insurance, in fact, we are talking about. The other is clarity in the market because the insurance sustained is 5 years after they enter, then represented. Then it moved back to 1 year. And therefore, all this clarity around customers that okay, has it settled or is there more to be -- more to happen there in that field, et cetera. As the communication is going out, people are becoming clearer. And that's why the confidence is that the first 5, 6 days there is still 25, 26 days of the festive to go. And as it's becoming more and more clear, the customers have started walking in.

Ruchit Mehta, SBI Funds Management Private Limited - Analyst & Fund Manager [44]

Okay. Okay. And if you could just give us some update on these 2 portfolio, particularly with regards to the 125cc products, that would be helpful.

Sanjay Bhan, Hero MotoCorp Limited - Head of Sales & After Sales [45]

Sorry. What -- scooter portfolio? We've talked about 2 of our 125ccs getting launched in this season. Yes. Of course. What we're doing is, you will see them shortly in the market. We, obviously, will be launching one after the other to space them out, so that there is enough room and space in the market for consumers to actually experience both. Both are as per schedule. And like we've mentioned earlier, there is a lot of resident excitement in the 125cc segment. As you know, the scooter market, as it is, has not been growing very well. But within that, in fact, the growth in the 125cc subsegment of the scooter is 77% for the first half. So we are getting into the segment which is, perhaps -- is driving whatever is happening in scooters. The entire action is there. So we're getting there. So -- and there is -- launches are as per plan.

Ruchit Mehta, SBI Funds Management Private Limited - Analyst & Fund Manager [46]

Okay, sir. So there has been no delay in the launch? Because I thought -- I mean, my understanding was this would've been launched by now. Navratri festival would have kicked in so...

Sanjay Bhan, Hero MotoCorp Limited - Head of Sales & After Sales [47]

No. These -- like we said last time around that we -- alongside or around the festive time. So it may not necessarily have been before the chair up or whatever. But we are getting into a situation where we probably will be launching them in a phased manner over a period of 15, 20 days, starting maybe Monday, Tuesday.

Operator [48]

Next question is from the line of Aditya Makharia from Motilal Oswal Asset Management.

Aditya Makharia, [49]

If you can give some color on the Xtreme, how this -- the 200cc bike. So how -- are we launching it? How nationwide? And what's the response to it? And secondly, just some color on the other income being higher this quarter.

Niranjan Kumar Gupta, Hero MotoCorp Limited - CFO [50]

So I'll take the question on other income first and then thereafter, I'll pass it on to Sanjay to explain on the Xtreme. As far as other income is concerned, it's higher as you've seen. Other income comprises of, also, income from interest on dealers. It is on our investment portfolio, but it also has interest on various deposits and also interest on the income tax deposit. So this quarter has had a couple of assessments, which got cleared and therefore, the deposit -- interest on deposits from income tax also came in and which led to -- actually, a part of the rise is also attributed to that. Sanjay, on the Xtreme.

Sanjay Bhan, Hero MotoCorp Limited - Head of Sales & After Sales [51]

Yes. On Xtreme, I think we are extremely, right now, quite excited about the way it's been received by consumers. We've kind of sold about 6,000 thus far. I think, in a short period, we've gone national now. So the most important part is that the overall acceptance of the format, the overall expectance of the brand, the overall communication and the positioning of Xtreme, I think that's all coming into the right place. It's now about time when the consumers will start the inquiries or the excitement, we convert themselves into sales. So we're quite hopeful, and we're very excited about the prospects of Xtreme. Like we said last time, it's not just going to be led to one model in the segment to do the job. It will have a lot of brothers and sisters coming along shortly. And we do expect, over the next 3 to 4 months, the entire premium segment portfolio for us will look, perhaps, the smartest of them all, as we like to put it. So I think the whole excitement is coming back into the game and the fact that Xtreme had a very difficult job to do, which was virtually relaunch Hero MotoCorp into the premium segment, I think it's doing it very ably. You will see some more action happening very soon.

Aditya Makharia, [52]

Sure. And lastly, sir, with Bajaj launching that 555 offer. I don't what festive scheme they are. How are we reading that? And are we reacting in any way?

Sanjay Bhan, Hero MotoCorp Limited - Head of Sales & After Sales [53]

We've said that before as well. We don't -- we choose not to respond to what competition does. I think -- I'm sure that they must have thought through whatever they're planning to do. And I'm quite -- I expect that they, whatever the scheme is, will do well for them. We can only wish them good luck. But beyond that, I really can't say much. Like I said, the overall move during the festivities, in the first few days, because I was answering -- responding to a question earlier, has been pretty lukewarm. It's been flattish at best. And we have seen that trend right across all competition. If anything, we're doing slightly better than others. So one, wouldn't be able to really comment on any specific scheme whether for competition or somebody else in that..

Niranjan Kumar Gupta, Hero MotoCorp Limited - CFO [54]

And by the way, just to add, although the 3 5s, while not commenting specifically on any competition, but we have 2 5s permanently, which is 5 free services and 5-year warranty. So there is only 1 5 probably the [same as a lot].

Operator [55]

The next question is from S. Natraj from Quantum Advisors.

Natraj Sankaranarayanan, Quantum Advisors Private Limited - Head of Equity Research & Portfolio Manager [56]

Yes. In a scenario of petrol being close to INR 90 and Hero being known for its fuel efficiency and [fuel shielded from] the mindset of consumers, are you recalibrating your product launch in this backdrop of higher oil prices? So is there -- reflects the thought process on launching premium products and stuff like that. Is there going to be some rethinking on that side? That's one. And second on the export side. Compared to our aspirations, we know that you're running behind. But there's some catch-up being done because of the market. What do you see over the next couple of years, your aspirations on the export side?

Niranjan Kumar Gupta, Hero MotoCorp Limited - CFO [57]

Well, so on the first part, which is petrol relating to deferral of premium or the vehicles which are less fuel-efficient. Actually, if you look at it, I mean, the overall fuel consumption in a month probably on a motorcycle would be nearly 1,000, 1,500 or even 2,000 if you have to go to our premium sort of stuff. And if you take even a 10% increase in petrol, that is of INR 100, INR 150 or INR 200 in a month. Really speaking, that's not a lot when you take our monthly expenditure level. So first of all, we don't see that impacting demand or that should impact our launches in any which way. So we will be proceeding with the launches in any case. As far as the exports is concerned, this quarter, the exports growth has been good. Having said that, we will continue to scale up in the relevant markets of export. And Bangladesh is doing well for us. Equally, there is Central American cluster which has done well for us. And the growth of quarter 2 in exports has been close to around 25%, 26%. So I think what -- the build, which is a slow build, but slowly and steadily, we are building up as far as our export business is concerned. And...

Natraj Sankaranarayanan, Quantum Advisors Private Limited - Head of Equity Research & Portfolio Manager [58]

Okay. Just to follow up on that export part. The -- can you just share the Bangladesh year-to-date volume if it is possible?

Niranjan Kumar Gupta, Hero MotoCorp Limited - CFO [59]

We don't share market-wise volumes. But you can take it off-line with Umang separately if you have to.

Natraj Sankaranarayanan, Quantum Advisors Private Limited - Head of Equity Research & Portfolio Manager [60]

And the effective tax-rate guidance for the longer term?

Niranjan Kumar Gupta, Hero MotoCorp Limited - CFO [61]

Sorry?

Natraj Sankaranarayanan, Quantum Advisors Private Limited - Head of Equity Research & Portfolio Manager [62]

The tax-rate guidance for the long term.

Niranjan Kumar Gupta, Hero MotoCorp Limited - CFO [63]

No. We don't give tax-rate guidance for the long term. But I would say that by and large, there is a big impact of the Haridwar fiscal expiry. And that is already built into our tax rate, yes?

Sanjay Bhan, Hero MotoCorp Limited - Head of Sales & After Sales [64]

And just to add to it, Natraj, on the lighter side, given the fact that we are virtually not present in the premium segment, I think that should be something of concern, if at all, to most of the players who are pretty well interested. For us, it's a win-win game because we just have to keep launching our new model to get some market share. I think that's where we -- that's how we should see it. Beyond that really, fuel prices and the impact it has across various customer segments, I think the premium consumers generally aren't as influenced by such things because they, obviously, are a little more agnostic to such changes. What impacts is clearly other segments. And if anything, we've seen historically, I think you started your question with that. Whenever there is a price increase in fuel, one of the biggest beneficiaries is somebody like Hero because, obviously, because of our lineage on mileage and our capabilities to deliver extremely high levels to -- for customers. We've always benefited from such issues. So we do see that as a positive thing in any case.

Niranjan Kumar Gupta, Hero MotoCorp Limited - CFO [65]

So on the demand side, we don't see any adverse effect at all.

Sanjay Bhan, Hero MotoCorp Limited - Head of Sales & After Sales [66]

Absolutely.

Niranjan Kumar Gupta, Hero MotoCorp Limited - CFO [67]

Yes.

Operator [68]

Next question is from the line of Hitesh Goel from Kotak Securities.

Hitesh Goel, Kotak Securities Limited, Research Division - Associate Director & Automobile Analyst [69]

Can you just share some demand patterns across Northwest-South regions of India? Because I think UP was a big growth market for you guys. UP, [Andhra] Rajasthan and [BR] as well. Can you just give us some sense on market-wise or region-wise demand trends?

Niranjan Kumar Gupta, Hero MotoCorp Limited - CFO [70]

So we don't give geography-wise or region-wise demand trend. But overall, this is -- let me ask Sanjay to...

Sanjay Bhan, Hero MotoCorp Limited - Head of Sales & After Sales [71]

Yes. I think it's -- the way you need to look at it, Hitesh, is very simple. For markets which are underpenetrated, the growth will continue to be very robust, both in the short term, medium term, and in the long term. And I guess the names of markets that you took are highly underpenetrated. So these markets will continue to keep rocking, I think, and we are extremely strong in these markets and continue to strengthen out even further. So to that extent, markets which are far more evolved and have higher level of penetration, the growth rates will always be, obviously, comparatively and relatively speaking, will be much lower. So yes, you are right. I think you've answered your own question.

Hitesh Goel, Kotak Securities Limited, Research Division - Associate Director & Automobile Analyst [72]

Okay, sir. And sir, just to follow up on this. So basically, we'd heard that there is a lot of companies which are coming in the electric bike segment, specially in UP. I was surprised to hear that a place called Azamgarh also has 5 companies, which have launched electric two-wheeler there. Any plans from Hero to launch its own product in electric? Because it may surprise companies in a big way in the coming 12 months and 1 year.

Niranjan Kumar Gupta, Hero MotoCorp Limited - CFO [73]

Right. So first of all, look, EV is not going to be a short-term story. EV is going to be a medium- to long-term story. Second thing is, we are ensuring they will not get surprised. And that's why we have a twin strategy, which is: one, we've invested in start-up called Ather. You would have seen their long scooters in Bangalore. We have 30% stake in that. The other is, our own R&D center is also working on it. So rest assured, we won't be surprised on it. We are working on it. But equally, it's not an overnight or a 12-month story. It's going to be a medium- to long-term story because a lot of stuff on EV needs to be sorted out, both on the private side, government side, infra side, customer side, convenience side, design side before really EV can take off.

Hitesh Goel, Kotak Securities Limited, Research Division - Associate Director & Automobile Analyst [74]

Okay. And sir, finally, can you give me dealer inventory on overall level right now?

Niranjan Kumar Gupta, Hero MotoCorp Limited - CFO [75]

No. So we don't give specific inventory-wise. But suffice it to say that we run on 4 to 6 weeks of forward demand.

Operator [76]

The next question is from Jatin Chawla from Credit Suisse.

Jatin Chawla, Crédit Suisse AG, Research Division - Research Analyst [77]

The first question is on -- could you quantify the import exposure that you have on both the direct and the indirect side? By indirect, I mean things that your vendors might be importing. And when does that kind of hit to your P&L? Is it with a lag of a quarter? Or a couple of quarters?

Niranjan Kumar Gupta, Hero MotoCorp Limited - CFO [78]

Yes. So we won't -- we don't give out any specific numbers on that. As far as direct is concerned, it is a small exposure because our exports and imports are put together with a natural hedge. And then, whatever is the rest of the quantum, which remains exposed, that we have covered on a quarter-to-quarter basis. So that's effectively how we navigate as far as our currency is concerned.

Jatin Chawla, Crédit Suisse AG, Research Division - Research Analyst [79]

I think on one of the earlier calls, you had called out that the indirect exposure was somewhere in the double digits. Just wanted to clarify, is it still as high, or have you done something to bring it down over the last couple of years?

Niranjan Kumar Gupta, Hero MotoCorp Limited - CFO [80]

What is double digits meaning?

Jatin Chawla, Crédit Suisse AG, Research Division - Research Analyst [81]

The indirect exposure used to be more than 10% at least 2, 3 years back. Has the company taken any steps to bring that down over the last 2, 3 years? Or is it...

Niranjan Kumar Gupta, Hero MotoCorp Limited - CFO [82]

10% of the cost, you are saying?

Jatin Chawla, Crédit Suisse AG, Research Division - Research Analyst [83]

Of the cost, yes.

Niranjan Kumar Gupta, Hero MotoCorp Limited - CFO [84]

Yes. Yes. No. No. No. There is no bringing down that. Because that also depends on not just currency, but you have to look at the overall benefit of the landed cost from import, from these things, vis-à-vis, local supply. And really, speaking in case of currency, it's not wise, at least what we see, is to take a fall on currency. And as you keep switching currencies from one part to the other and try to actually reduce exposures or try to do only based on currency, that doesn't work. And therefore, what we do is, basically, we do, on a quarterly basis, the hedging as far as our exposure is concerned. There's no effort to bring down any kind of direct or indirect exposure purely based on currency.

Jatin Chawla, Crédit Suisse AG, Research Division - Research Analyst [85]

Right. And could you quantify the total price hikes that you've taken so far this financial year, cumulative?

Niranjan Kumar Gupta, Hero MotoCorp Limited - CFO [86]

So we've been talking about price hikes every quarter. So I can't remember all the numbers. But you can pick up on the previous calls. But this time also, we took price hike on the ex-showroom basis of around INR 600 to INR 700. I think that's what we talked about. We had taken around INR 200-odd in the previous quarter and another INR 300-odd in the -- INR 300, INR 400-odd in the -- from the first [separate]. So then pick up from the previous calls that those have been the order of price hikes that we've been taking.

Jatin Chawla, Crédit Suisse AG, Research Division - Research Analyst [87]

So October was about INR 600 to INR 700?

Niranjan Kumar Gupta, Hero MotoCorp Limited - CFO [88]

Yes. Yes. Yes.

Jatin Chawla, Crédit Suisse AG, Research Division - Research Analyst [89]

And you mentioned some one-off element on the other income side. Possible to quantify that?

Niranjan Kumar Gupta, Hero MotoCorp Limited - CFO [90]

No. It's not possible to quantify. There are very different elements into that. And therefore, we won't be able to quantify exactly the one-off element. It does happen. Those interests on income tax, they always do come in several quarters. So it's not just also one-off. It's one-off in this quarter. It also was there in, I think, Q3, Q4 or one of the quarters. So I think when the assessments keep getting completed, the amounts accrue, and that's what we did.

Operator [91]

The next question is from the line of Pramod Amthe from CGS CIMB.

Pramod Amthe, CIMB Research - Head of India Research [92]

Wanted to check, do you see any -- in terms of the demand or the sales momentum for the industry, how has been rural versus urban? And in terms of slowdown, which you talked, is there an existing pattern between the rural and urban again?

Niranjan Kumar Gupta, Hero MotoCorp Limited - CFO [93]

Sanjay?

Sanjay Bhan, Hero MotoCorp Limited - Head of Sales & After Sales [94]

I think what we've seen thus far, I think it's been a fairly consistent thing. Yes. You could say that rural is a little stronger, and -- as opposed to the urban thing. But just about marginally better. But what we do expect is that going forward, given the MSP kind of scenario that we are getting into now, there is a clear feel that we are getting from the [country, networks] and markets. But things in rural will start looking not good, even better. So that just gives us an extra confidence that things will start getting even better in rural, moving forward. So to that extent, right now, what is visible is almost a similar situation in both. Slightly better in rural. But I think from hereon, things could get even stronger for rural.

Niranjan Kumar Gupta, Hero MotoCorp Limited - CFO [95]

Also, let me just add on. You have mentioned these are slowdowns, slowdown. We have not yet slowed down. We're talking about the first 5, 6 days of festive. We're talking about the long-term macroeconomic fundamentals remaining strong. We're talking about even the short-term fundamentals remaining firm, which is the NSP, which is all this other stuff that's happening, the quarterly economic growth, all these factors. So 6 days of festive, really speaking, calling that a slowdown, we don't quite agree. I think we, as you said, we still believe that 8% to 10% growth, underlying growth momentum is possible.

Operator [96]

The next question is from [Pranav Tendulkar] from Rare Enterprises.

Unidentified Analyst, [97]

I just wanted to ask how many of your dealerships are you categorizing as winners, average performers, and below average performers? That is one. And to improve that, how frequently are you doing some initiatives like mystery

shopping, et cetera, to assess their performance? And what are the solutions that you provide for dealerships to improve their performance?

Sanjay Bhan, Hero MotoCorp Limited - Head of Sales & After Sales [98]

Yes. So [Pranav] I think, first of all, it will be -- I don't think it will be fair on our part to share the exact number of dealers not pulling their weight. But yes, I think the question is very relevant to understand as to what is the company thinking on, how do we really try and bring them around and improve their performance. So we have an internal system, just to share, called myScore. We track that on a regular basis. It's a balanced scorecard-based system, wherein performance across all parameters, sales, service reporting, service satisfaction, parts business and all of that ideas are factored in, including any customer complaints or any challenges around that. And that will give us a residual score for each dealer. And the bottom 5 percentile of all dealers are especially put into a dealership improvement plan for which there are various trainings, et cetera. There are various interventions that are done from time to time. So -- and the intent therefore is to improve them. We are an extremely dealer-friendly company, but we've tried to ensure that performance doesn't come in their way. And therefore, we make sure that we're able to pull through most of these dealers. And whenever there is a need, we always look at options of letting such dealers go. There has been a case like that in the past.

Unidentified Analyst, [99]

Right. Right. So I see -- so I have done some research on the ground, and the -- Hero MotoCorp is actually very well known for low cost of ownership, total cost of ownership, not just the initial discounts, right?

Sanjay Bhan, Hero MotoCorp Limited - Head of Sales & After Sales [100]

Right.

Unidentified Analyst, [101]

And this communication is not as effectively coming out in city dealerships. That's what my observation was, maybe my sample was very low, as it is clear to rural dealers. Are you doing anything to push this impression? Because these guys are the first and most authentic communicators of your product, right? So something like that.

Sanjay Bhan, Hero MotoCorp Limited - Head of Sales & After Sales [102]

Yes. So (inaudible) pretty well, we -- so just to kind of understand your question. You're saying that our rural dealers are more aware of this as opposed to the larger dealers. Are you -- that's your question?

Unidentified Analyst, [103]

No. No. So it might be also coming out because of the dealers' experience that urban buyers might be actually concerned about not total cost of ownership, but some different things. I'm not clear about that. But rural dealers are quite clear about it, that your total cost of ownership will be very low in Hero as compared to, say, Bajaj or any other competitor.

Sanjay Bhan, Hero MotoCorp Limited - Head of Sales & After Sales [104]

That's right. I think there has been a jury out for a long, long time. And I think we always end up in these kind of chats where people end up thinking that rural customers are not probably as brand-savvy as they are cost-conscious as opposed to the urban customers. But like I said, the jury is still out. I personally believe that rural customers are strongly brand oriented as is urban counterpart. I don't think there's any gap in that. And that's why you see the best of products are actually getting considerable market. So the growth point is that perhaps, there is a very clear driver, which is our total cost of ownership, which needs to be articulated adequately in certain areas, which is a little more sharper indoors, maybe defined by your own sampling, like you said, your limited sample size. Maybe in that sample, it turned out that the smaller dealers were a little more sharply talking about this thing. And that's -- whatever is the sales pitch, eventually, is also a function of what the customer really wants to know more about. Isn't that right? So in such markets where if your sample has been skewed, therefore, you would not have been able to pick those markets where customers actually concerned about total cost of ownership being as a core reason. But in terms of our pitch to all our dealers and the communication, we are very clear. I -- first of all, I don't quite agree with the initial discounts. There are no discounts. Hero doesn't offer promotion discounts. So we're very clear about focusing. And that's been our pitch for a very, very long time, because most other manufacturers are available at a discount versus everything in product that we have in the category. And therefore, if we have to fight against that, and more recently, in the last call, I remember there was a whole bunch of talk about certain competitions and a certain amount of discount, which was going into, maybe INR 8,000 plus kind of a discount. We didn't, of course. Today, I'm surprised, there's no question on that. But that's the reality. In market, there are competitions which are offering a significant discount upfront. We are still operating in -- very successfully so. So our pitch has always been not about the initial cost alone. It's been about the total experience and the total cost of ownership across dealerships, across [vehicle type], across customer demographics. So maybe the sampling is one way I'd like to look at the sample probably having been a little skewed. It could be the reason that you have not picked it up.

Niranjan Kumar Gupta, Hero MotoCorp Limited - CFO [105]

Having said that, I think we are happy that you are picking up this as a core thing, which we also communicate, and we could always look at enhancing it. And...

Sanjay Bhan, Hero MotoCorp Limited - Head of Sales & After Sales [106]

Yes. I mean, if you could share with us those samples, maybe, yes, we need to do a...

Niranjan Kumar Gupta, Hero MotoCorp Limited - CFO [107]

And we could level that. And also, the market, sometimes, is also, we move towards rather than from just total cost of ownership or total value of ownership. This then includes the brand and the price and everything. All right?

Operator [108]

The next question is from the line of Pramod Kumar from Goldman Sachs.

Pramod Kumar, Goldman Sachs Group Inc., Research Division - Executive Director [109]

My -- I just want, first, a clarification on the spare parts comment, what Niranjan made at the start of the call. Did I hear it right that spare parts growth was around 24% parts per -- part revenue growth this quarter? Is that right?

Niranjan Kumar Gupta, Hero MotoCorp Limited - CFO [110]

Yes. Quarter 2 versus quarter 2.

Pramod Kumar, Goldman Sachs Group Inc., Research Division - Executive Director [111]

So that would put in the number of over INR 700 crores, right? For the quarter?

Niranjan Kumar Gupta, Hero MotoCorp Limited - CFO [112]

INR 713 crores to be precise. I can give you the numbers as well.

Pramod Kumar, Goldman Sachs Group Inc., Research Division - Executive Director [113]

And my question on -- a question pertains to the second half outlook on marketing expenditure. Given that you guys are having some amazing launches on the scooter and the premium motorcycle side, is that probably fair to expect that with the festive retail marketing as well in terms of branding and launch expenses? The marketing intensity will be much more higher in the second half versus the first half?

Niranjan Kumar Gupta, Hero MotoCorp Limited - CFO [114]

Well, it could go up. Overall, we've always been around 2.5% to 3% in terms of our ad and publicity expenditure. And we keep managing within that framework. And we do see us managing within that framework even moving forward. But yes, second half would be higher than first half. Yes?

Sanjay Bhan, Hero MotoCorp Limited - Head of Sales & After Sales [115]

Traditionally -- historically, it would have been like that. The second half does see some action, particularly if your Diwali, Dussehra falls in the second half, which is the case this year. Last year, of course, Dussehra was in the first half. So there are a lot of expenses, but split a little there. But I guess, that's traditionally the way. The entire auto segment, and particularly two-wheelers, started spending in the second half.

Pramod Kumar, Goldman Sachs Group Inc., Research Division - Executive Director [116]

Sounds good. And the second question is on the market -- on the aspirations on the -- both the scooter and the premium motorcycle. As we can see, the data on scooter market share, we've been kind of having a 5-month straight decline in scooter dispatches. I guess, you're probably setting the ground with very low inventory of the existing models and the

new models come in, which is understandable. But how would you see the market share journey for Hero from hereon for the next 2 years as to -- is there any aspirational numbers? Because in the past, you shared numbers which haven't exactly materialized because 100cc segment is not exactly doing well. But as you enter the fast-growing 125cc segment, is there a number which you would put as to where would you like to have your market share back? Like, we've done being 20, 15, and now we are closer to 11. So is there a number there? And similarly, for premium motorcycle, we used to be 12% plus in FY '13. We are down to 1.3%. So is it -- what kind of a comeback are we looking at in both the categories?

Niranjan Kumar Gupta, Hero MotoCorp Limited - CFO [117]

So I'll first start with just a minute on this, and then I'll hand it over to Sanjay for your answer. But we don't give out our market share ambition number on any of our portfolio because it's important to do the right thing, and then, the market share will come along. Obviously, any segments that we would play, we would play to win, yes, and to get the fair market share. As far as scooter is concerned, you've already talked about 125cc launches and that of the endeavor. Premium would be building portfolio of 3 to 5 years, and then get to a meaningful market share. What that would be, do you want me to quantify? Let me hand it over to Sanjay to talk more about the scooter and the premium.

Sanjay Bhan, Hero MotoCorp Limited - Head of Sales & After Sales [118]

So Pramod, I think there's a very simple answer to your question. I think our growth or our aspiration in both these segments is going to be a function of the launches that we are going to be having in these segments. And as you already, perhaps, know that both these segments [slipped] started with some very major action. And something going to happen very soon shortly on scooters, followed by some more action in the premium segment. So I guess, it's also very important to understand that first of all, we started -- it's not been a tanking story for us in scooters. We have actually include our market share between quarter 1 and quarter 2. From 12.6%, we've gone to 12.9%, which is not a bad situation in the market anyways, which has been having a lot of turmoil. If you would have noticed that scooters have not been doing as well as they have been doing historically. It's just a segment that we are not operating in within scooters that we're not present, so we can't really count that in. So we are getting there, and that's a market that is really having a fantastic growth. And hopefully, that should trigger and supplement our efforts to improve market share. Like Niranjan mentioned, we do not kind of give an outlook on the proposed market share. But I guess, you know how Hero operates, and I'm sure our ambitions are pretty, pretty high, and pretty much in the zone in the expectation that you have. So hopefully, over the next 2 to 3 years, in the medium term, we will be certainly well poised to be hitting those numbers, both on premium as well as for scooters. Yes. Sorry.

Niranjan Kumar Gupta, Hero MotoCorp Limited - CFO [119]

Also, just to add, and this is on the brighter side, Pramod, that within a space of 6 months, you are going to see 3 launches, yes? One, Xtreme 200, which is happening in premium; the 2 125ccs, which are going to come. Probably, in the last many quarters, you would not have seen this kind of 3 launches of new products coming in 6 months. We're building a good platform from hereon.

Operator [120]

Next question is from Sonal Gupta from UBS Securities.

Sonal Gupta, UBS Investment Bank, Research Division - Director and Research Analyst [121]

Just dwelling on the same question. So like you mentioned a couple of times on the call, the scooter market has not been doing well. Any thoughts around that? I mean, especially in the light of the fact that you said that urban and rural are not very, very different in terms of demand trends. So could you just throw some light on what's happening on the scooter side?

Sanjay Bhan, Hero MotoCorp Limited - Head of Sales & After Sales [122]

Yes. I think we've partly explained this in the last quarter earnings call as well. There are multiple things that seem to be happening. One is that based on scooters in the quarter 1 last year was very high because of the initial fill opportunity post the BS IV, BS III conversions. So therefore, the growth there was slightly muted. But that has continued to be on a bit of a, sort of a downturn, I would say. And then, I think, perhaps, there could be multiple reasons. We are also trying to grapple with that. And a couple of things that seem to be indicated from data points is there has been a significant -- in the -- over the last 3 years, there has been a very high level of multiple ownership within households that has gone up incredibly over the last 3 years. But that is flattening out. And therefore, that is not helping the scooter growth, because scooter, in a lot of cases, almost about 1/4 of scooter growth was actually determined by multiple ownership in households. So perhaps, it's that kind of a flattening out, it's impacting a significant amount of -- so it's trading a significant amount. The other thing that seems to be happening, there's a lot of action around the 125cc. So -- which is a segment which is growing very fast. We've mentioned it last time around, that it took almost about 15 years for -- or maybe closer to 20 years for the motorcycle -- in case of motorcycles, to move to a 20% or thereabout contribution from the 125cc. While as in scooters, it's taking us in 10. So a lot of action around, probably, power and stuff like that, maybe the current scooters. Customers are not as excited. They probably are seeking a little more thrill. So maybe that movement is happening. Maybe multiple ownerships is kind of holding it back. So hopefully, we'll watch it a little more carefully. We are not concluding that the scooter is completely out and -- done and out. But we'll have to watch it a little more closely over the next quarter or so, to be able to have a very clear picture on what exactly is going on with the scooter industry.

Sonal Gupta, UBS Investment Bank, Research Division - Director and Research Analyst [123]

Yes. That's very interesting. Just on the others, I mean, just on the motorcycle side also. I mean, like, if I look at the broader trend in the industry on the 100, 110cc, really, the demand seems to be moving more towards the entry-level motorcycles. I mean, not just this year because of the discounting and stuff, but even if you look at like the 5-, 6-year trend. And the executive, or the deluxe as you call it, has actually been shrinking. Of course, you've not lost volumes, but other players have. So I mean, are we seeing -- I mean, what -- that people are just sort of down-trading in terms of -- or how do you see the 100cc as a segment itself has been shrinking overall in the longer term? So I mean, just in terms of how do you see the trend going forward on a medium-term basis? And what does have implications in terms of your margin profile, given if entry becomes bigger and bigger?

Sanjay Bhan, Hero MotoCorp Limited - Head of Sales & After Sales [124]

I think it's very simple. The pull-and-push story works very well. A lot of consumers who are migrating scooter, the multiple ownership guys, will probably be picking from deluxe segment. I would assume one clear check for you would be that over the next quarter or so, if there is an improvement in the deluxe contribution within motorcycles, you could clearly conclude that scooter people are holding back and coming back to deluxe motorcycles. As far as entry is concerned, there's a lot of opportunity out there. As there are -- there's a full ocean of people who really want to come into motorcycles. And their first stop probably would be the entry-level bikes in, and therefore, entry segment will particularly go because of penetration. I've already answered that earlier in a very different context, because there is opportunity from a penetration point of view. And the first opportunity, obviously, goes to the entry-level bike.

Niranjan Kumar Gupta, Hero MotoCorp Limited - CFO [125]

And also, if you look at the growth (inaudible), then, yes. I mean, if you look at even full year '18 growth, yes, I mean, it grew widening double digits, 10% plus. Premium also grew 10%. Yes. But [starting Q2] entry has grown faster, and that's also on the back of some of the discounting that has happened. But if you look at a sustaining trend, and we have mentioned about it, the story of many Indians. So you have only entry, bottom of pyramid, people dropping off probably the lower-priced bike getting there. Then you have another middle class which is the entire Delhi, which actually want to go for a better motorcycle, even as their first motorcycle. And of course, we are a big part of it, so that's why that's growing, and the premium is more an urban stuff, an aspirational youth, et cetera which is driving. So I think it's the story of many, I guess, playing out. As you know, you'll see one segment getting cannibalized by another segment. So we don't see that happening.

Operator [126]

The next question is from Jamshed Dadabhoy from Citibank.

Jamshed Dadabhoy, Citigroup Inc, Research Division - Director [127]

Yes. So just one housekeeping question. What were your spare revenues for the first half, please?

Niranjan Kumar Gupta, Hero MotoCorp Limited - CFO [128]

The spares revenue for the quarter 1 was INR 602 crores, and quarter 2 was INR 713 crores. So seeing the same thing. Yes.

Jamshed Dadabhoy, Citigroup Inc, Research Division - Director [129]

Sorry. First quarter was 6-0-2?

Niranjan Kumar Gupta, Hero MotoCorp Limited - CFO [130]

6-0-2. Yes.

Operator [131]

Next question is from Ashutosh Tiwari from Equirus.

Ashutosh Tiwari, Equirus Securities Private Limited, Research Division - Research Analyst [132]

So you mentioned that the financing is around 36%, 37% as a whole. But how would that split between, say, rural and urban? Will the financing will be higher in urban areas than in rural?

Niranjan Kumar Gupta, Hero MotoCorp Limited - CFO [133]

Financing is higher in -- urban area is higher than the rural, because we have to see that financing available to the right currency group. And that's why urban financing will always be higher.

Sanjay Bhan, Hero MotoCorp Limited - Head of Sales & After Sales [134]

Yes. In urban markets, the financing is as high as 55% to 60%. Whereas, in rural markets, it's much lower than that.

Niranjan Kumar Gupta, Hero MotoCorp Limited - CFO [135]

So just to add on to that. So that is actually another big opportunity. As far as rural industry is concerned, moving forward in the medium term. Because the low level, current lower level of rural financing is not going to remain low. All it means is a lot of demand is actually not getting justified because of low level of financing. And that would change. That would change with finance inclusion. That would change with finance penetration. That would change with all the smartphone penetration, bank accounts. All that sort of stuff. The credit inclusion, the digitalization of that. So over the medium term, if you look at the next 3 years-odd, then one can see, actually, the finance penetration in rural increasing. And that's -- again, we are a big player to the sort of demand, yes?

Ashutosh Tiwari, Equirus Securities Private Limited, Research Division - Research Analyst [136]

Okay. But because of the -- this increase in the interest and insurance, almost [INR 1,000] for an entire segment, wouldn't that impact rural demand over there, really cash as of now? Larger portion is cash. So will not that impact demand over the near term, at least for the next 4, 5, 6 months maybe? After that, maybe the -- you will start increasing the financings?

Niranjan Kumar Gupta, Hero MotoCorp Limited - CFO [137]

So actually, if you see, the part of finance, what is non-finance, all that is combined FX, which is what you see as of now. And you see as we have explained, we've just seen a bit of confusion around this. Yes, there's an impact on the showroom price. Yes, that's why, probably, the first few days of the festive have been kind of a clash. But you also see now the last couple of customers walking in. So actually, we see that festive is big. The rest of the stuff, because it's not just about an expenditure on a particular [quarter] putting out, it's about, do they have enough [interim] amount of money in their wallet to actually spend? The theory comes from there. And that is intact. Whether it's MSP, whether it's economic growth, et cetera, et cetera. So they have the money in their wallet. That's a big thing. That's the most important thing. And thereafter, made a decision to buy. Yes, initially, a bit of confusion around insurance. Now people are walking in. So we still feel as long as people have income part of the story is intact, then the demand will keep growing, yes.

Operator [138]

Next question is from the line of Gunjan Prithyani from JPMorgan.

Gunjan Prithyani, JP Morgan Chase & Co, Research Division - Analyst [139]

I just had 2 follow-ups. Firstly, on the financing penetration, which you touched upon. Are you seeing some new players, in the sense, banks coming back to the segment? Because there was, in general, a big withdrawal in 2009, '10, and then you've seen the captive NBFCs. Are you seeing the profile change, and you're seeing banks more receptive to it and look at this segment more seriously now?

Niranjan Kumar Gupta, Hero MotoCorp Limited - CFO [140]

Yes. I've had conversations with few of the banks on this. And you are right. I mean, they are more receptive towards this. I think they're increasingly seeing the opportunity space of the consumer financing. So far, the big banks have relied on corporate financing. And the consumer financing has gone to NBFC. And increasingly, you can see that the banks are looking at this segment as a business moving forward. And as banks come in, and as they can spread their scale, probably, even the interest set in future may drop, the cost of financing that happens today in the rural area. So that's not for short term. But I will say that if you were to ask me for a -- [to see a 5-year] outlook, yes, I will say that I could see banks coming in. I could see the cost of financing coming down, and I could see the penetration increasing. Will it happen in the next 3 to 6 months? Maybe not. But medium term, certainly, yes. Sanjay?

Sanjay Bhan, Hero MotoCorp Limited - Head of Sales & After Sales [141]

And Gunjan, I think, again, a very good question, really, because I think from the context of what actually is happening in terms of finance footprint, I think it's not just a case of more people in bigger towns buying more bikes or two-wheelers or four-wheelers of finance. It's also about the deeper penetration that finance companies, the footprints, or as they call, the geo limits for each of these towns are expanding rapidly. Which tells you one thing, that the consumer -- the confidence of finance companies in terms of securing their funding is increasing rapidly. The financial environment, overall, in the country is improving dramatically. That might sound surprising, given the recent context of how corporates have not done well in terms of their own behavior and repayment of dues. But consumers are, clearly -- these have proven the consumers are -- have really given the confidence to a lot of finances. So we see a lot of NBFC. We see a lot of cooperative banks. We see a lot of [local] healthy banks, which is basically the rural -- regional rural banks, RRB, coming out in the open, improving their footprints, increasing their due limits. So there's a lot of consumer confidences increasing and like Niranjan mentioned a short while ago. There's another reason why we think that the overall long-term view of two-wheeler demand is just looking pretty good because the moment financing improves and increases, it's going to only be embedded in more customers before.

Niranjan Kumar Gupta, Hero MotoCorp Limited - CFO [142]

And Gunjan, if I look at just quarter report of -- I think it's the PwC report, the Future of India report, where you can see the finance actives of the consumers, overall, not talking similars, is 35% to the projected to grow to almost 90% in the next 10 years. So there you are in terms of there is enough opportunity as far as the financing is concerned. And we are sure, at some point of time, it's going to take off.

Operator [143]

Next question is from Nishant Vass from ICICI Securities.

Nishant Vass, ICICI Securities Limited, Research Division - Auto and Auto Ancillary Analyst [144]

Sir, sorry for, again, asking the question on festive, just because it's quite unique because the cost changes happened on insurance, and there was a disruption. Trying my luck, could you give a breakup between, say, what you generally traditionally see the sales in festive during the Navratri period and say, between the Diwali and then the Dhanteras period, historically? And I'm coming from this fact that even if, say, we've probably lost a few days initially on Navratri, is it possible the consumer kind of shifts its demand cycle to say Dhanteras and Diwali, and the overall volume growth comes back to, as you were highlighting it, to 10%? Is your views on the same?

Sanjay Bhan, Hero MotoCorp Limited - Head of Sales & After Sales [145]

Yes. That's a nice try, Nishant, I must say. But you know what? I think we'll just go with what we mentioned to you a short while ago. These are early days, extremely early days. And this is not something that's happening for the first time. Keeps happening cyclically over 2 to 3 years. Sometimes, the Dussehra does a significant job. And then, Diwali is not as strong. Sometimes, the start can be lukewarm or flattish, like I mentioned, and then there is a takeoff subsequently. So all these things even themselves out, because it's like this: you and I decide to buy something during a certain period, and I may not buy it on a Monday, or I may not want to buy it on a Wednesday. I might decide that I'll buy it 2 weeks later, because there is something other that has come up. So I guess -- so long as we move and the overall larger macroeconomic factors are in place, there is a bit of dampening. We admitted to that. The fact remains that there has been a major setback on account of the insurance play in the month of September. Now it's kind of eased up. By now, it has been a month since that thing happened. And I think Niranjan mentioned earlier, it's not only that increase in the insurance, which happened in the month of September, on 1st September. It's also the confusion created. So I'm not going to comment on that, but there was a huge confusion on 5 years versus, eventually, we had to fight it out and get down to 1 year. So that confusion has led to a little bit of customer unease, I would say, and -- which is kind of now easing out itself. We've seen some serious improvement over the last 2, 3 days. So without really sharing a number, which may not be also right to do, we do expect that there is going to be a significant improvement from the way things are now, to how they will turn out to be at the end of the season.

Operator [146]

The next question is from Jinesh Gandhi from Motilal Oswal Securities.

Jinesh K. Gandhi, Motilal Oswal Securities Limited, Research Division - SVP of Equity Research [147]

My question pertains to the 125cc scooter launch. So you are indicating will be launching around first week of November. Is that correct?

Sanjay Bhan, Hero MotoCorp Limited - Head of Sales & After Sales [148]

No. I think what I mentioned is, we may start off with one market right now because what happens in this festive time. We don't want to really risk the fact that we supply quantities and there in quantity and people really wanted across and then we're not able to satisfy those customers, be disappointed. Dealers will be enraged. We'll be disappointed. We'd rather go and trying to fill up a market, because the ramp-up takes time. And we would -- accordingly, fill up the market, and by plan one particular cluster of market. And then, over a period of 15, 20 days, open up into other markets, and then go with a bang. So that's how the plan is right now. We are starting off with one cluster and fill that up adequately so that they're able to cater to all the festive months for that scooter, and then open up rest of the country with one shot.

Jinesh K. Gandhi, Motilal Oswal Securities Limited, Research Division - SVP of Equity Research [149]

Okay. And that will happen from coming Monday?

Sanjay Bhan, Hero MotoCorp Limited - Head of Sales & After Sales [150]

This will happen between Monday, Tuesday of -- yes, the coming Monday, Tuesday. We will start off with one market, and then, subsequently roll it out to the rest of the country over the next 3 weeks.

Jinesh K. Gandhi, Motilal Oswal Securities Limited, Research Division - SVP of Equity Research [151]

Okay. Okay. And the second 125cc scooter would be around [Jan set]?

Sanjay Bhan, Hero MotoCorp Limited - Head of Sales & After Sales [152]

That would be, mainly, development later or something like that. It's really a plus. It's really -- but to be very honest, we don't want to really complicate the things because it's something we'll not be able to get adequate time, adequate buildup, adequate communication prior files for one model, I think, would need same place as well.

Jinesh K. Gandhi, Motilal Oswal Securities Limited, Research Division - SVP of Equity Research [153]

Okay. Okay. Second question pertains to commodity cost. So in 2Q, I believe last part of the commodity cost inflation would be in our performance. Do you expect any further inflation on the -- to reflect in 3Q? Hello?

(technical difficulty)

Operator [154]

We seem to have lost the line from the management. I now hand the conference over to Nishant Vass for closing comments. Mr. Nishant Vass?

Nishant Vass, ICICI Securities Limited, Research Division - Auto and Auto Ancillary Analyst [155]

Yes. Hi. Thanks for attending this conference call. That will be the end of the call due to the management being dropped out. Thank you, everyone, for joining today.

Operator [156]

Thank you very much. On behalf of ICICI Securities Limited, that concludes this conference. Thank you for joining us. Ladies and gentlemen, you may now disconnect your lines.