Q3 2011 Earnings Call - Bajaj Auto Dt- 20 Jan'11

Operator

Ladies and gentlemen, good day and welcome to the Q3 FY11 Post Results Conference Call of Bajaj Auto Limited hosted by Emkay Global Financial Services. We have with us today Mr. Kevin D'sa, President, Finance of Bajaj Auto Limited. As a reminder, all participants' lines will be in a listen-only mode. And there will be an opportunity for you to ask questions after the opening remarks. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Anish Damania, Head of Equities at Emkay Global. Thank you and over to you sir.

Anish Damania, Analyst, Emkay Global

Good evening everyone. Thank you for joining us today. We would like to welcome Mr. Kevin D'sa, Bajaj Auto and thank him for giving us an opportunity to host this call.

I would now like to hand over the call to Mr. D'sa. Over to you, sir.

Kevin P. D'sa, President, Finance

Thank you everybody and warm welcome and thank you so much for the interest that you have shown in Bajaj Auto. Like in the past, I would rather go straight into the Q&As, because I think sufficient time -- people have studied the papers.

And let us all go for the question-and-answers.

Questions And Answers

Operator

Thank you, sir. Ladies and gentlemen, we will now begin with the question-and-answer session. [Operator Instructions]. We have the first question from the line of Jinesh Gandhi from Motilal Oswal Securities Limited. Please go ahead.

Jinesh Gandhi

Good evening, Kevin.

Kevin P. D'sa, President, Finance

Good evening, Jinesh.

Jinesh Gandhi

Kevin, couple of questions on, first is on your contribution from Pantnagar in this quarter. Would you be able to share that?

Kevin P. D'sa, President, Finance

Number wise, we have averaged about 75 to 80,000 numbers.

Jinesh Gandhi

Okay.

Kevin P. D'sa, President, Finance

So, but contribution wise in terms of sales et cetera is not so relevant as what is more important is the bottom line.

Jinesh Gandhi

Right.

Kevin P. D'sa, President, Finance

This time, for example, I would say that most of the sales, the profitability has come from the non-Pantnagar zone, that is basically is the Pulsar.

Jinesh Gandhi

Right. Okay. And secondly, in terms of the price increase taken during the quarter and 4Q, would you be able to share that?

Kevin P. D'sa, President, Finance

Price increase, we have taken about Rs. 500 to Rs. 1,000 on all our products from 1st of October and a further Rs. 500 to Rs. 1,000 on all our products again from 1st of January.

Jinesh Gandhi

Okay.

Kevin P. D'sa, President, Finance

In the October quarter, we had done the price increase for the domestic part of the business only, whereas in January we had done it for the domestic as well as for exports.

Jinesh Gandhi

Okay.

Kevin P. D'sa, President, Finance

As far as Pantnagar, to just add a little bit of your answer, is during the quarter three we did about 210,000 numbers from there.

Jinesh Gandhi

Okay. So this we further expect to ramp up to about 100,000 units?

Kevin P. D'sa, President, Finance

It's all the demand situation, because today for example the demand situation are extremely robust for the Pulsar and the Discover family. Exports are very buoyant. So it's more the demand rather than the capacity.

Jinesh Gandhi

Okay. But since you'll be launching new Discover in April...

Kevin P. D'sa, President, Finance

Discover is also being made from there. But so therefore, as we go forward, its more a demand situation that will decide what we produce from where.

Jinesh Gandhi

Right. But even new Discover, which is going to be launched in April, will be from Pantnagar or...

Kevin P. D'sa, President, Finance

We have the flexibility.

Jinesh Gandhi

Okay.

Kevin P. D'sa, President, Finance

But normally what we do is, whenever we launch a new product, we start from our plant that is mature, where if at all there are any difficulties it could be addressed.

Jinesh Gandhi

Right.

Kevin P. D'sa, President, Finance

And then once we get into the stable production, then we move it on to Pantnagar.

Jinesh Gandhi

Right. Okay. And Kevin, we have treasury of roughly about 3,800 crores.

Kevin P. D'sa, President, Finance

Yeah.

Jinesh Gandhi

Where is would be parked currently?

Kevin P. D'sa, President, Finance

All in government securities and fixed income securities. No investment right now in equity.

Jinesh Gandhi

Okay.

Kevin P. D'sa, President, Finance

And this 3,800 crore that you are mentioning, excludes investment that we have made in KTM or in the Indonesia plant.

Jinesh Gandhi

Right. Okay. And so, what would be the yield which you would be earning now and third quarter what could be the yield earned?

Kevin P. D'sa, President, Finance

It's about 6%.

Jinesh Gandhi

Okay. So this might increase...

Kevin P. D'sa, President, Finance

As we go forward, correct. You see again, people have not, since you are the first question, let me also add. This 3,821 cores is sitting on the books of account despite the fact that over 650 crores is outstanding from the government on account of VAT refund.

Jinesh Gandhi

Okay.

Kevin P. D'sa, President, Finance

Every quarter we get a refund receivable of about 200-220 cores. This time the January refund, the quarter for June, for quarter September, quarter December is still outstanding and we are following up with the government for getting this refund released at the earliest. There is no exception being made. This is as per the rules. We are on the fast track, but for some reason or the other we are not receiving the refund.

Jinesh Gandhi

Okay.

Kevin P. D'sa, President, Finance

Otherwise, my cash balance as of this particular point in time, we should be adding the 600 crores in addition to 3,821.

Jinesh Gandhi

Right. That's what I was wondering because, our cash balance, closing balance was somewhere around 3,200 odd crores.

Kevin P. D'sa, President, Finance

Yeah.

Jinesh Gandhi

And cash flow quarterly should be about 600 odd crores.

Kevin P. D'sa, President, Finance

Correct.

Jinesh Gandhi

Okay. And Kevin, in terms of guidance which Mr. Bajaj gave yesterday, would you be able to throw some light on that, would you able to dissect that guidance in terms of...?

Kevin P. D'sa, President, Finance

No. In fact, if I... to be fair to Mr. Bajaj if you read and I have seen the text et cetera, its more of a ballpoint, ballpark figure which is talking of this is where he would like to look at...

Jinesh Gandhi

Okay.

Kevin P. D'sa, President, Finance

rather than a formal guidance. We are working on the numbers that we normally provided to the Board in the end of March, after which then that can be released. So this is more of a first-cut version that he has shared with all.

Jinesh Gandhi

Okay. So one should not go by this guidance as of now?

Kevin P. D'sa, President, Finance

I would say that that is definitely the thing that we are looking on we would like to target.

Jinesh Gandhi

Okay. But overall, are we facing cost pressure in our... in 4Q are we witnessing any cost pressure and what's the view otherwise?

Kevin P. D'sa, President, Finance

The cost pressure is what we had anticipated. There would be some cost pressures coming on account of conversion cost that will be there. There would be, as you see, the steel manufacturers talking in terms of increasing the steel prices about 3 to 5%, negotiations are taking place. But these cost increase have been factored in, in our price increase that we have made on 1st of January.

Jinesh Gandhi

Right. So that largely covers our cost pressure?

Kevin P. D'sa, President, Finance

That's right.

Jinesh Gandhi

Okay, Kevin. Thanks. I'll come back in queue.

Kevin P. D'sa, President, Finance

Sure.

Operator

Thank you. The next question is from the line of Prashant Poddar from Invesco. Please go ahead.

Prashant Poddar

Thanks for taking my question, Kevin.

Kevin P. D'sa, President, Finance

Good afternoon, Prashant.

Prashant Poddar

Good afternoon. One basic question on, what is the investment in KTM and Indonesia plant?

Kevin P. D'sa, President, Finance

As of today, the total investment is about 830 crores in KTM, and about 140 crores in Indonesia.

Prashant Poddar

Okay. Also, in terms of the number of dealers that we are planning to add in April, does it also involve additional cost? That is one. And two, sorry.

Kevin P. D'sa, President, Finance

As far as... one, I just want to correct you, the investment in Indonesia is 871 not 831. It's 871 crores and 137 in Indonesia, making a total investment of about 1,009 in what I call Group companies.

Coming to the dealership appointment, there is no cost at all incurred by Bajaj. Everything is done on a principal-to-principal basis. There is no sharing of any expenses for setting up the dealership, sharing of tools, et cetera. Its a zero cost basis for us.

Prashant Poddar

Okay. And in terms of mapping, I mean these dealers would be, of these 130 dealers how many would be in the same locations as you are already present in?

Kevin P. D'sa, President, Finance

I don't have the breakup of that, but I would probably put a guess and say that almost about 40 to 45% of these 130 dealers would be in locations where we already have dealers. These are probably most in the urban areas where the cities have expanded and therefore we need presence to cover the entire city. But about 60% balance will be the places where we had earlier an authorized service center or a rural set outlet which gets upgraded to a dealership.

Prashant Poddar

Okay, alright. And this will not in any way create shortage of supplies to your existing dealers?

Kevin P. D'sa, President, Finance

No way. Because what we believe is the fact that there will be a element of cannibalization that will take place from earlier the customer who had probably gone 15 kilometers or so to buy for the first dealer. Now, the second dealer will be much closer to this person. So therefore, there will be a likely to be a bit of a dip in the existing dealer's sale. But in totality, the company's sale should increase.

Prashant Poddar

Okay. Fair enough. I'll come back for more questions. Thank you very much.

Operator

Thank you. [Operator Instructions]. The next question is from the line of S. Natraj from Quantum Advisors. Please go ahead.

S. Natraj

Hi Kevin.

Kevin P. D'sa, President, Finance

Hi.

S. Natraj

Just on thing on, you did say 70% of your sales is from Discover and from Pulsar. In case over a cycle, let's say there is a slowdown happening, there's a lull period over a period of time, does this mix address any kind of downturn that may arise or any risk that you see or you may have to launch a low model, how will that impact your overall brand equity, could you just throw some light on that?

Kevin P. D'sa, President, Finance

As of now what we are looking at is basically focusing on the two brands of the Discover and the Pulsar. Our company will be much more brand conscious, brand focused because that is what we believe is the strength. And as we say that its the brands that give you profit and products give you market share. But having said that, one will have to need to look at the, address the market and say whether the space at the lower end also where one would like to ensure that we don't sacrifice too much of space.

At the same topic, there is also ample space in the 100,000 to 300,000 vehicle rupee price point that one needs to address. So I don't think we will look at it in a very focused manner in that sense, but we will look at it much more holistically.

All I would say to you is that we are quite focused on the EBITDA and the profit part of the business, and we are more than willing to sacrifice business that is not giving us the desired margins.

S. Natraj

Okay. Another one on the export contribution, you have ambitious plans over the next five years in that. As things stand, with this slight, this marginal decline in export contribution in the last nine months compared to full year last year, any updates on that? If there's a global downturn happening, let's say for example your exports will get as impacted as your domestic. So, is there any diversification risk at all in the worst place?

Kevin P. D'sa, President, Finance

No. In the first place, the export itself is well broken up into different countries and different zones. And therefore, if you see for example like today Nigeria may be about 45% of the market, Nigeria and Africa as a combination. We have significant other space that is there in Latin America, for example today if I look at the sales composition for the whole period, if you look at it for the Q3 FY the current year, Africa, Middle East contributes 39%, South Asia is 35%, Southeast Asia is 8%, Latin America is 18%. So, what we're seeing is that the market is well diversified.

Secondly, what I was looking at say for example, you just take into account two years back when we actually landed up with the Western side completely tanking, Colombia tanked, Mexico tanked, but Africa took us up. Today, we are in a situation where all the markets are growing. So I would believe that we are fairly well based in that sense.

S. Natraj

Okay. And lastly on the KTM bike launch. Do you have plan to produce the bike in Pune or in India? Just last update on that. Thanks.

Kevin P. D'sa, President, Finance

It will be early first quarter of fiscal 2012. I would say that the bikes that have been manufactured by Bajaj in this Chakan plant will be shipped to KTM.

S. Natraj

Okay. Thanks.

Operator

Thank you. The next question is from the line of Pramod Kumar from JM Financial. Please go ahead.

Pramod Kumar

Yeah. Sir, my question pertains to on the export pricing. You said that you've taken up pricing in exports recently in January. Does that include even the three-wheeler pricing?

Kevin P. D'sa, President, Finance

Yes.

Pramod Kumar

And is it, would you mind sharing those numbers in terms of what's the average percentage increase on the --?

Kevin P. D'sa, President, Finance

Similar to the domestic as a percentage.

Pramod Kumar

Sorry?

Kevin P. D'sa, President, Finance

Similar to the domestic as a percentage.

Pramod Kumar

Okay. And another thing was on the three-wheeler --, as in there have been some concerns as to whether we are headed for a slowdown on the three-wheeler in the domestic market. So if you can answer some of that in terms of which are the new markets where you see permit being opened up and any possible market where you expect the permits to be deregulated in altogether?

And then on the export side as to which are the markets where there is a significant potential even now which can sustain years of growth for three-wheeler going forward?

Kevin P. D'sa, President, Finance

Three-wheeler for us has continued and will continue to be a extremely strong business line. Domestic three-wheelers will be, without, let me repeat, any permit opening up, we are quite confident of doing over 15,000 numbers a month irrespective of the permits. Permit opening up will be a top-up that will be giving us and therefore for example when I look at three-wheelers, I break it up into two categories, one is the domestic and one is the export category.

Pramod Kumar

Yes, sir.

Kevin P. D'sa, President, Finance

The export part of the three-wheeler is growing significantly, and that's why I am extremely confident of the export potential of the three-wheelers. And if one has even heard Rajiv's CNBC NDTV interview yesterday is what he has reiterated the fact that three-wheelers in the export market have great potential and will continue to grow. As far as the domestic market is concerned, 16,000, 15,500 to 16,000 month-on-month irrespective of permits will happen.

Pramod Kumar

Okay.

Kevin P. D'sa, President, Finance

Permits will be a complete top-up to these figures. So for example, let's say even in the month of December with a very poor month quarter-end where brokers and financial don't finance, we did a domestic sale of over 15,000 vehicles in the domestic market.

We will hope, we hope that in the next two to three months, once you see Karnataka opening up, we again believe that our, what shall I say, actions being or hopefully being initiated by various state governments where instead of not opening up permit, there are number of dead or canceled permits, actually revised. So this is what I believe. So I don't see too much concern on the three-wheeler front going forward.

Pramod Kumar

And any possible state, any state which will possibly delicense it and inline with what Gujarat has done and or what Tamil Nadu has done?

Kevin P. D'sa, President, Finance

Well, these are progressive states and I hope the rest of the states follow up.

Pramod Kumar

But there's a potential, right?

Kevin P. D'sa, President, Finance

There is a potential, very much there.

Pramod Kumar

Very much there. Great, sounds great sir. And thanks a lot and best of luck.

Kevin P. D'sa, President, Finance

Thank you, Pramod.

Operator

Thank you. The next question is from the line of Mayur Milak from Alchemy Shares. Please go ahead.

Mayur Milak

Hi Kevin.

Kevin P. D'sa, President, Finance

Hi Mayur.

Mayur Milak

Just wanted to figure out what's coming on the lower exports only. Typically your exports have come up from like 324,000 vehicles in first quarter to 297,000 odd. Now this slowdown typically has been in a particular market or it has been across over various markets?

Kevin P. D'sa, President, Finance

I am being now tongue-in-cheek. My problem with you guys is you're looking at it every month-on-month. The figure that I am telling you is, if I am guiding you for as against 1 million 10 lakh vehicles of exports, I am guiding you for 12 lakh for the year. I mean are you not comfortable on that? Month-on-month, day-on-day, that shipment goes this side, one shipment goes that side, you all get so panic and the whole industry was talking to me export slowdown in December, December, December. Next month, say January, what happens if I do 100,000 export? So let's not look at it month-on-month.

Mayur Milak

Okay.

Kevin P. D'sa, President, Finance

Quarter-on-quarter, if the guidance was 1 million, we'll do 1.2 million. Last year, I remember giving a guidance of about 800, we did 900.

Mayur Milak

Yeah.

Kevin P. D'sa, President, Finance

And this year I'm saying 1 million, its going to become 1.2 million.

Mayur Milak

Right.

Kevin P. D'sa, President, Finance

And export is on track, exceedingly strong, exceedingly strong profit numbers. And let me also add over here is there's a feeling among a few that if exports continue in Africa, our margins will come down. And therefore, the growth in exports will erode my margins. The answer is no, because the exports of Africa and those regions are also going significantly on the three-wheeler side. And therefore, for me, the export margins currently and going forward as well over the 20% mark.

Mayur Milak

Okay. And one more question was on the ad spend. Now we haven't really seen any major ad spend from Bajaj. But just recently saw the ad on the new Discover 150. So, is there a conscious effort now that we'd be doing some kind of ad expenses from this quarter on?

Kevin P. D'sa, President, Finance

No. The decision of the company is very clear, right from the very start is that advertisement spend is not... any amount of money you give a marketing team is never enough. So we are saying that the advertisement spend has to be focused, to be relevant and is to be the product that can sort of actually sell.

Mayur Milak

Right.

Kevin P. D'sa, President, Finance

You don't spend money on product that the customer doesn't want to buy. You spend products to get the customer who is already keen to upgrade himself, and therefore you're seeing advertisement spend on the Discover 150. You may see advertisement spend on the Pulsar family and that's how it goes on. So the total advertisement that you are seeing that is incurred in the first quarter or the second or the third quarter may go up in the fourth quarter or going forward. But irrespective of that, I am saying that I am giving a guidance of 20% of EBITDA for the whole year, including this additional spend that may take place on entertainment.

Mayur Milak

Okay. So this has already been built into, to take care of the margins?

Kevin P. D'sa, President, Finance

Yes.

Mayur Milak

Right. Thank you.

Operator

Thank you. The next question is from the line of Jiten Doshi from Enam Asset Management. Please go ahead.

Jiten Doshi

Hi Kevin.

Kevin P. D'sa, President, Finance

Hi Jiten.

Jiten Doshi

Kevin, a couple of questions. One is that, can you tell me how much was the financial income that we earned in the first nine months?

Kevin P. D'sa, President, Finance

The financial income that we earned in the first nine months is an average of about 90, but that translates to about, the first quarter was 81, 84 and 99, so that's close to 300 crores. And this is despite the fact that I am telling you that 650 crores of our money was with the government.

Jiten Doshi

Correct.

Kevin P. D'sa, President, Finance

If that thing comes in, you would see that this company earning at least, I'm just being very cautious and guarded, in the next year at least close to 500 crores on treasury income.

Jiten Doshi

That's net yield or gross yield?

Kevin P. D'sa, President, Finance

FY12.

Jiten Doshi

No, that's a net yield or gross yield?

Kevin P. D'sa, President, Finance

Gross.

Jiten Doshi

Okay.

Kevin P. D'sa, President, Finance

I mean this is what would be realized in the books.

Jiten Doshi

Okay.

Kevin P. D'sa, President, Finance

This is my estimate at this point of time.

Jiten Doshi

Correct.

Kevin P. D'sa, President, Finance

Because you're seeing the figure right this year, I would say it will be close to about 350 crores.

Jiten Doshi

Correct.

Kevin P. D'sa, President, Finance

Next year, I don't see any reason why it should not be 500 crores.

Jiten Doshi

Okay.

Kevin P. D'sa, President, Finance

350 crores, the government being going by the rules and guidelines, should have been much more closer to about 375.

Jiten Doshi

Correct.

Kevin P. D'sa, President, Finance

Therefore, I am saying it will go on and even in this current situation where there will be some refund stuck, for me this treasury income that is taking place should be closer to 500 crores in the next FY12.

Jiten Doshi

Correct.

Kevin P. D'sa, President, Finance

And also, for this thing that this is a very tangible and a very steady state because we are not in equities, so it's not a burst that comes in because I sell off some shares or I book some profit in a particular sector. It is a very steady state of numbers. And therefore, you will see in the first quarter we did 81 crores of other income, second quarter 84, third quarter 100 and I would say that the fourth quarter will be somewhere in the 85 to 90 band.

Jiten Doshi

Correct. So Kevin, some numbers we are doing and we believe that by next year if everything goes well and you minus the investments made in KTM and Indonesia, you should be sitting at about, after dividend payment and everything, you should be sitting on 6,500 crores of cash.

Kevin P. D'sa, President, Finance

I won't like to comment on that Jiten, because I myself have not done those numbers. But let me put it this way that had I got my 6,500 crores this 31st March, that would be closer to about 4,800 to 4,900 cores.

Jiten Doshi

Correct. So there's a $1 million and plus next year's profitability, if you just put some maths together.

Kevin P. D'sa, President, Finance

Yes.

Jiten Doshi

If you take the same profit as this year, then you should be sitting on 6-7,000 crores worth of cash.

Kevin P. D'sa, President, Finance

I would say so, but like I'm saying that I've not done my numbers, these are your calculations. I won't like to sort of challenge it, you won't be wrong too much but.

Jiten Doshi

Okay. So, what are the plans, because you're not... there's no CapEx and the amount you are spending on the car project is north of 4,500 crores I believe.

Kevin P. D'sa, President, Finance

As far as the car project, the figures that you are saying which you say you believe has not come from our side now because I don't recollect seeing those figures. So that may be your estimate.

Jiten Doshi

I think the MD has mentioned this in the last analyst meet that he would not be spending more than 500 crores.

Kevin P. D'sa, President, Finance

Yeah. But that's over a particular period, it's not in a particular year.

Jiten Doshi

Okay.

Kevin P. D'sa, President, Finance

So it may be starting from say 2009 or something, because he did made that statement at the AGM.

Jiten Doshi

Correct.

Kevin P. D'sa, President, Finance

But this is over, he made this statement at the AGM of 2009.

Jiten Doshi

So, definitely you're not putting thousands of crores in the car.

Kevin P. D'sa, President, Finance

100% no sir.

Jiten Doshi

So, that's what I'm saying, as you don't have a great CapEx ahead...

Kevin P. D'sa, President, Finance

Yeah.

Jiten Doshi

so this company will be swimming in cash, any thoughts?

Kevin P. D'sa, President, Finance

No thoughts at the time being, except that we'll not flutter it away in unrelated expansion.

Jiten Doshi

Okay.

Kevin P. D'sa, President, Finance

The money will be kept in, what I would call, fixed income treasury which gives us steady return.

Jiten Doshi

Correct.

Kevin P. D'sa, President, Finance

And I am putting my neck out of the block, but I am also saying right now that I would see a much more liberal dividend policy likely to come out.

Jiten Doshi

Correct.

Kevin P. D'sa, President, Finance

This is just my comment, but that decision is finally with the Board. But, I would believe that the company would be sensitive to the fact that there is surplus cash in the balance sheet.

Jiten Doshi

Correct. My second question is, I think MD made a point yesterday on the TV where he said that our differential between the market leader and our margin is about 6 to 7%.

Kevin P. D'sa, President, Finance

Yeah.

Jiten Doshi

So, the Hero Honda's margins are 15%, TVS consolidated margins are about 5 to 6%, and your margins are 20 plus percent. What would you say is the real difference apart from the three-wheelers? How would you really say, what's the real difference between where you are getting the margins and the others were not able to get these margins?

Kevin P. D'sa, President, Finance

You see Jiten, the issues like this there's a substantial change that is taking place in the company over the last two to three years.

Jiten Doshi

Correct.

Kevin P. D'sa, President, Finance

Most of the analysts, most of the fund managers are still living in the past...

Jiten Doshi

Correct.

Kevin P. D'sa, President, Finance

where they believe that the profitability of the company is coming from three-wheelers.

Jiten Doshi

Correct.

Kevin P. D'sa, President, Finance

I think that has changed significantly. And I will put it that the profitability of Bajaj Auto's motorcycle division per se, domestic motor cycle division per se, on a like-to-like comparison with the best motorcycle in terms of numbers, our margins are 4 to 5% higher than theirs.

Jiten Doshi

Oh, in the domestic portfolio itself?

Kevin P. D'sa, President, Finance

Domestic portfolio itself, quarter three, then why put a figure to them and I use the same profitability that they get. I get declared for quarter two, I don't have their figures for quarter three.

Jiten Doshi

Yes, our analysts are estimating a 15% margin on Hero Honda for the third quarter.

Kevin P. D'sa, President, Finance

Okay. Then my estimate was slightly low, but I go with your figure that we are still ahead of that by at least, I won't give a percentage, but it was 15% we are ahead of that purely, purely, purely on the domestic play.

Jiten Doshi

Correct.

Kevin P. D'sa, President, Finance

Now what happens is, today for example I would say that 55% of our sales come from motorcycles that gives EBITDA margins... of domestic motorcycles which are giving us margins higher than let's say Hero Honda as a best motorcycle in margins after us.

Jiten Doshi

Correct.

Kevin P. D'sa, President, Finance

Another 15% of our... 11% of our sales comes from three-wheelers that gives us margins in excess of 30%.

Jiten Doshi

Correct.

Kevin P. D'sa, President, Finance

Another 7% of our sales comes from spare parts which gives us margins of 30% plus.

Jiten Doshi

Correct.

Kevin P. D'sa, President, Finance

And then 28% in value terms come from exports, which I've earlier clarified, gives us margin in excess of 20%. So if you look at the whole thing, if motorcycles per se is giving me margins higher than competition, that too not by a percent or two, I'm doing this thing, its much significantly higher. My margin of 20% is something that I would say that is doable. And that's what Rajiv in his press said that 20% is not a sort of a ballpark figure or something that it gives, but he is saying that 20% is relative, and when he is talking of relative to competition. So we are very confident that we will be at least 6 to 7% higher in EBITDA margins than competition purely on account of the business model that we are working on.

Jiten Doshi

Kevin, you have a very well balanced, very well derisked model, as you explained to us, 55% comes from motorcycles where your margins are higher than the leader. Your three-wheeler margins are 30 plus. Your spare parts and exports margins are better than domestic. So, it's a very cleverly derisked business model. Do you see any changes to this going forward?

Kevin P. D'sa, President, Finance

I would see that the motorcycle margins will rise because of the fact that more and more of our products are coming at the higher end. Now what Rajiv would have also mentioned, and if you all have seen that the new Discover is being launched in April, which is going to be at the higher than a 100 cc segment. So it's the higher price point, higher margins. The Pulsar family is growing. That business for example in the quarter three had a record number of Pulsars. I would say that this is what the trend is happening, because if you look at the trend that we are seeing over here, while Discover is growing and the Platina is shrinking, it's the Pulsar that is actually growing significantly.

Jiten Doshi

Correct.

Kevin P. D'sa, President, Finance

The second thing what this company has done is, over the last two quarters, we have decided that we will not artificially subsidize any product.

Jiten Doshi

Correct.

Kevin P. D'sa, President, Finance

And therefore, from 1st of April to 1st of January, we have taken a four price increases on the Platina.

Jiten Doshi

Correct.

Kevin P. D'sa, President, Finance

We are saying you produce, if the customer wants it, he buys it. But, this is the price that we will set, because we don't want to gain market share by artificially pricing our products.

Jiten Doshi

What do you think about --?

Operator

Mr. Doshi, I'm sorry to interrupt, sir. Please come back in the queue. We have a lot of participants in the question queue.

Jiten Doshi

Okay.

Operator

Thank you.

Jiten Doshi

Thank you.

Operator

The next question is from the line of Yatin Chawla from IIFL. Please go ahead. That participant has disconnected his line. We are moving on to the next question, from the line of Supriya Madye from HSBC. Please go ahead.

Supriya Madye

Hello sir. This is Supriya from HSBC.

Kevin P. D'sa, President, Finance

Yes, please.

Supriya Madye

Sir, actually yesterday MD was saying that we are increasing the capacity where we can sell three-wheelers around 40,000, you might have explained which I might have missed out. I just wanted to know, what's going to help me, what is our current capacity on the three-wheeler and the two-wheeler by FY11?

Kevin P. D'sa, President, Finance

See, our total capacity of three-wheelers by FY11 end will be about 40,000 numbers per month, that is 0.5 million.

Supriya Madye

Okay.

Kevin P. D'sa, President, Finance

The issue that we are facing right now is the capacity constraint on the four stroke engines.

Supriya Madye

Okay.

Kevin P. D'sa, President, Finance

Total three-wheeler capacity of 40,000 numbers per month or 480,000 is very much there.

Supriya Madye

Okay.

Kevin P. D'sa, President, Finance

But Egypt, Sri Lanka and the rest of the market, Bangladesh et cetera, are asking for four stroke diesel or four stroke petrol or four stroke LPG, CNG. The markets are expanding in India, especially in the bigger cities are also driving

four stroke.

Supriya Madye

Right.

Kevin P. D'sa, President, Finance

So, therefore, on the four stroke engine there's a capacity constraint...

Supriya Madye

Okay.

Kevin P. D'sa, President, Finance

which we are facing right now. And therefore, we see that expansion of within that overall capacity of creating this four stroke engine capacity by ending it up by end of March.

Supriya Madye

Okay.

Kevin P. D'sa, President, Finance

But, 0.5 million is the total capacity that we will look for and that's what I would say would also be the targeted sales for the next year.

Supriya Madye

So, how much we would be spending in having this in capacity increase?

Kevin P. D'sa, President, Finance

Negligible.

Supriya Madye

Very negligible. Yeah, that's it from my side, sir. Thanks a lot and congratulation, all the best going forward.

Kevin P. D'sa, President, Finance

Thank you.

Operator

Thank you. The next question is from the line of Jinesh Gandhi from Motilal Oswal. Please go ahead. Mr. Gandhi, your line has been unmuted. Please go ahead with your question.

Jinesh Gandhi

Hello?

Kevin P. D'sa, President, Finance

Yeah.

Jinesh Gandhi

Yeah, Kevin. Can you throw light on hedges that you have taken for next year?

Kevin P. D'sa, President, Finance

Next year, we have factored in about a 15 to 20% growth in exports in value terms, which basis about 90-95% of the exports has been covered at a lower rate of about 46.7.

Jinesh Gandhi

46.7 and 90 to 95% is covered.

Kevin P. D'sa, President, Finance

Yeah.

Jinesh Gandhi

Okay. And Kevin, secondly on Discover, over the two to three months we have seen some slowdown in volumes. Again, is it the trend which you have seen at retail sales or it's more to do with wholesale?

Kevin P. D'sa, President, Finance

It's all wholesale, and that's what I have again and again tried to address the people is that if you look at the Discover sales on the retail level, there has been no significant deterioration at all...

Jinesh Gandhi

Okay.

Kevin P. D'sa, President, Finance

if you adjust for the seasonality. As a policy, we have always billed what we have retailed. In the month of August and September the dealers had picked up significant amount of stocks assuming that there will be a very, very robust Diwali. Diwali sales was good, but the dealers were overstocked and therefore, a stock correction took place in November.

Jinesh Gandhi

Okay.

Kevin P. D'sa, President, Finance

And that's how the pattern is. So, there is no problem on the Discover and that's why we are saying that even in the Discover we are talking in terms of a significant growth taking place in the next year, over the launch of the new product.

Jinesh Gandhi

Right. So now inventory should have normalized.

Kevin P. D'sa, President, Finance

Inventory should have normalized.

Jinesh Gandhi

Okay. So now, so wholesale sales will now be more a reflection of retail going forward.

Kevin P. D'sa, President, Finance

That's right. But Jinesh, except for November, our wholesale sale and the retail sales will be always the same...

Jinesh Gandhi

Except for November and December.

Kevin P. D'sa, President, Finance

where we corrected the stock. No, December our retail and wholesale was same, 1.65 lakh.

Jinesh Gandhi

Okay. And for December it was same.

Kevin P. D'sa, President, Finance

Yeah.

Jinesh Gandhi

Okay. Got it. Okay Kevin, thanks and all the best.

Operator

Thank you. The next question is from the line of Vishal Thorat from SBI Mutual Fund. Please go ahead.

Analyst

Hi, sir.

Kevin P. D'sa, President, Finance

Hi.

Analyst

Sir, I just wanted to understand a longer-term view on the three-wheeler segment. We have seen a good four-wheeler carriers has significant growth over last one and half years. And we are seeing more launches in the smaller tonnage segment. So, do you see them impacting overall goods three-wheelers and going ahead possibly passenger three-wheelers as well?

Kevin P. D'sa, President, Finance

See, the cargo vehicle, this is my personal opinion, as far as the cargo segment is concerned, one will always look at a four-wheeler as a cargo segment rather than a three-wheeler. And therefore, there will be a structural change where you will see more and more four-wheeler cargo vehicles taking market share away from the three-wheeler cargo segment.

For us, unfortunately or fortunately whatever you may say, is our participation in the cargo segment is just about 1,000 vehicles a month. So that change is not going to affect us too much.

As far as the movement from the four-wheeler to the three-wheelers concerned as a passenger segment, outside the city is one would see where you are talking of public transportation, you will see the transition taking place outside the city. And for this purpose, what the company is doing, it's also strengthening its portfolio, and by end of 2012 calendar year, Bajaj will come out with a normal extension of its existing three-wheeler cargo and passenger into that segment.

Now, this is, what I would say, is a little bit of a reflection of what's happening on the domestic part. Within city, the three-wheeler will not be replace, I mean, I won't say will not, in all likelihood will not be replaced by a four-wheeler. But, what we have also got to look at is the export potential that is taking place, because as you talk in terms of Africa and the other markets, you have seen a huge amount of core public transportation in the same situation that we saw in our country several years back, there's a great opportunity that is lying over there. So, the three-wheeler in totality is a business that has potential to grow from here also.

Analyst

Okay. And by end, -- products you are mentioning, will it be similar to a four-wheeler?

Kevin P. D'sa, President, Finance

It will be an extension of the three-wheelers to meet the requirement of what we believe is the market at that time.

Analyst

Okay. And in the export markets also, do you see a similar kind of shift in terms of some market share moving away from three-wheelers to four-wheelers?

Kevin P. D'sa, President, Finance

No, we have not seen that. And that's why what we are seeing actually is the market of three-wheeler is still fairly underpenetrated in Africa, in Egypt and that's why you are seeing a growth potential very strong over there.

Analyst

Okay. And here, like you mentioned, some amount of outside city volumes might shift from three-wheelers to four-wheelers. So, how do you see that overall impacting or do you think that would be very miniscule compared to the overall sales for us?

Kevin P. D'sa, President, Finance

For us, the overall sales, it is basically the diesel segment that gets affected...

Analyst

Okay.

Kevin P. D'sa, President, Finance

not the petrol and LPG and CNG segment. In the diesel segment, we do, I think about 4,000 numbers, the bigger player is PIAGGIO over there.

Analyst

Right.

Kevin P. D'sa, President, Finance

But if you look over there, you do see TATA Magic making significant inroads in those areas.

Analyst

Right, sir. And going forward, say one, two years when smaller vehicles, smaller four-wheelers make entry into the market, do you think that can possibly pose a threat for even the within city vehicles?

Kevin P. D'sa, President, Finance

No, we are anticipating if at that eventually comes in, we are working on similar types of product that we believe will be a improvement for our, let's say for example next step from the existing three-wheelers and that's what the four-wheelers, as Rajiv mentioned...

Analyst

Right.

Kevin P. D'sa, President, Finance

is scheduled to be launched by around December 2012.

Analyst

Right sir. Okay, sir. Thanks a lot. That's all from my side.

Kevin P. D'sa, President, Finance

Thank you.

Operator

Thank you. The next question is from the line of Vaishali Jajoo from Angel Securities. Please go ahead.

Vaishali Jajoo

Yeah. Good evening everyone and the management. This is just an extension to your new dealership network which is coming in from April onwards. Is there going to be an increase in the supply to the wholesale desk more than in retail and so inventory will increase in that front?

Kevin P. D'sa, President, Finance

In a sense I've not understood this question. At any time what happens is, there will always be the initial stocking that takes place. So the wholesale inventory should go up to that extent, because then there'll always be a minimum level that the dealers have to maintain. But that's a small part of the overall business.

The whole thing is that these people will be able to create greater focus and be able to outreach to the customer, creating a lot of custom convenience for purchases.

Vaishali Jajoo

No, I just put in the other way. Suppose in one area there are three dealers, we will add one more or two more. So, the number of vehicles distributed among those dealers will be same as of now what we have on an average basis or it will increase definitely --?

Kevin P. D'sa, President, Finance

It should increase. But definitely, the first dealer stocks will come down, because what we do is, we control the credits to the dealer. So, I would definitely say, the dealer number one is, say for example in a multi-dealer town, the dealer one was earlier selling 1,000 vehicles, its quite possible that he'll come down to 900 numbers, where the second dealer will sell 400 numbers.

Vaishali Jajoo

Is it the company which does this kind of arrangement or the dealer themselves --?

Kevin P. D'sa, President, Finance

No, the company does it. In terms of the main dealer et cetera, is all appointed by the company.

Vaishali Jajoo

Okay.

Kevin P. D'sa, President, Finance

As far as the sub-dealer is concerned, we ensure that the dealer has got enough of touch points where we believe there is market potential.

Vaishali Jajoo

Okay. And another question is, if you can just explain me slightly more on the export market again, because going forward I think the competition if increases in the longer-term from Hero Honda, do we have any strategy in place how to go ahead in the export or we're already there? So, we still have a strong --.

Kevin P. D'sa, President, Finance

No. See, I won't like to answer this question, because I hope I've not misunderstood on this matter, but someone believes that motorcycles are like commodities, like steel you just go and put it in the market and sell. Its a completely different ballgame. It takes time, it takes two years, three years of hard work of getting dealership and getting into network in -- and distributors willing to commit money who understands all these things that works it out.

In our case, for example, our growth of exports has not come in with ease. It has taken us five years to grow the market to this level. It required Mr. Sanjiv Bajaj as a Bajaj to participate and sit with individual distributors to get their loyalty, to get their commitment and all that. So it's not something that you just mentioned that Hero Honda comes in and he starts selling from day one, et cetera. It's a long process, it's two years, three years.

And again, when you're talking of exports, let us say for example, today you are talking of markets, let's say of Latin America, the market size may be about 200,000 or 300,000. You already have Honda, Yamaha there and you have

Bajaj there. So, let's say for anybody else to come, it is a challenge is not possible, but let's say it doesn't happen overnight. It will take time.

Vaishali Jajoo

Okay. Thanks.

Operator

Thank you. The next question is from the line of Amit Ghelani from Deutsche Bank. Please go ahead.

Analyst

Thank you, sir for taking my questions.

Kevin P. D'sa, President, Finance

No problem.

Analyst

Hello?

Kevin P. D'sa, President, Finance

Welcome.

Analyst

Okay, sir. First of all, when you are giving the breakup of the revenues, you mentioned 28% comes from export which yielded margin in excess of 20%.

Kevin P. D'sa, President, Finance

Yeah.

Analyst

Sir, that 28% is two-wheelers and three-wheelers or...

Kevin P. D'sa, President, Finance

Only three-wheelers. That's why I said the domestic sales is 10%, three-wheelers.

Analyst

Yeah.

Kevin P. D'sa, President, Finance

The domestic part is only 10%.

Analyst

Right.

Kevin P. D'sa, President, Finance

And sir, one more thing, yesterday Mr. MD was mentioning that you are not facing any input cost pressures except in the case of plastics and nickel maybe. So, just wanted to ask you, have you done any like long-term price contracts or something because like aluminum prices and steel prices had been rising. So, have you secured any long-term price contracts on that front?

Kevin P. D'sa, President, Finance

No, we don't do it. As a policy, let's say we decide that we don't want to sort of, our conscious decision not taking into account some long-term contracts on steel, aluminum et cetera, because it could go wrong either way.

Analyst

Right.

Kevin P. D'sa, President, Finance

So we'd rather go with the market, because it affects us all in the same way.

Analyst

Okay.

Kevin P. D'sa, President, Finance

Exports is different, because most of our profit, talking of competition, is the rest of the people do not have exports.

Analyst

Right.

Kevin P. D'sa, President, Finance

So for me, we do it in the manner and say that at Rs. 46 I think the margin in excess of 20%.

Analyst

Right.

Kevin P. D'sa, President, Finance

Let's lock it up. Let's not take the risks. In terms of the input costs, you are similar to competition.

Analyst

Right.

Kevin P. D'sa, President, Finance

And therefore, we do not like to fool around taking those hedges.

Analyst

Okay.

Kevin P. D'sa, President, Finance

What we do is we take in... as far as steel is concerned, we take shorter-term contracts of about three months or so.

Analyst

Okay.

Kevin P. D'sa, President, Finance

When we believe that the prices are tending to flatten out or rise.

Analyst

Okay.

Kevin P. D'sa, President, Finance

And when we believe steel prices are just low, we'd like to extend ourselves for us as much as possible. But definitely, the other steel companies do not do it.

Analyst

Right.

Kevin P. D'sa, President, Finance

As far as aluminum goes, we normally have no fixed price contract.

Analyst

Okay.

Kevin P. D'sa, President, Finance

But we have a quantity. So we buy a particular quantity for shipment in different months at a particular price.

Analyst

Okay.

Kevin P. D'sa, President, Finance

But for me, I'm saying that is almost common to the industry and therefore my advantage or disadvantage on this thing is very, very short term.

Analyst

Okay.

Kevin P. D'sa, President, Finance

As far as what Mr. Bajaj mentioned in terms of the input costs, definitely on terms of plastics is going up because you have seen the fuel prices.

Analyst

Right.

Kevin P. D'sa, President, Finance

There will be conversion cost that will come in from the vendors.

Analyst

Right.

Kevin P. D'sa, President, Finance

But, when he said that he is not seeing us straighten is because he was reading it with a price increase that we have made on 1st of January.

Analyst

Okay. So you think basically whatever increase is happening, you are able to perform at this level sir?

Kevin P. D'sa, President, Finance

Yes.

Analyst

Okay, sir. Sir, just one more thing on the CapEx, do we expect like a 100 crore number even for the next year?

Kevin P. D'sa, President, Finance

We have no figures to share with you right now, because like I said, the whole thing is being worked out, it'll be declared at end of March.

Analyst

Okay.

Kevin P. D'sa, President, Finance

But I would say, for a company of our size a minimum of 75 to 100 crores does get spent in terms of R&D, in terms of replacement, in terms of modernization and in terms of support services like the MIS department or maybe some office space somewhere the other.

Analyst

Right. Any kind of a capacity CapEx that you are looking at, maybe second half of next year or --?

Kevin P. D'sa, President, Finance

No, I don't have any figures to share with you on this.

Analyst

Okay, sir. Thanks a lot, sir. Thank you.

Operator

The next question is from the line of Bhagyesh K. from HDFC Mutual Fund. Please go ahead.

Bhagyesh Kagalkar

Yeah. Kevin hi, this is Bhagyesh here.

Kevin P. D'sa, President, Finance

Hi.

Bhagyesh Kagalkar

One query is regarding the rupee realization on the exports for the current year. And the second is, the excise duty expectations in the budget, means what do you expect --?

Kevin P. D'sa, President, Finance

As far as the exchange rate is concerned, we are by and large in quarter one, quarter two, quarter three at about 46.5. And even in the fourth quarter, we should be closer to the 46.5.

Bhagyesh Kagalkar

Okay.

Kevin P. D'sa, President, Finance

To that extent, exchange rate is not going to be, it's going to be steady state. There's not going to be much of a variation affecting the bottom-line positively or negatively.

Bhagyesh Kagalkar

Okay.

Kevin P. D'sa, President, Finance

As far as excise duty is concerned, my own perception is there will be no change.

Bhagyesh Kagalkar

Okay. You expect them to be at 10% for two-wheelers as well as three-wheelers. It is at 10%.

Kevin P. D'sa, President, Finance

Yeah.

Bhagyesh Kagalkar

Okay. Thanks.

Operator

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

Kapil Singh

Hi Kevin.

Kevin P. D'sa, President, Finance

Hi, Kapil. Tell me.

Kapil Singh

Two questions. One, have we taken any export hedges for FY13?

Kevin P. D'sa, President, Finance

No.

Kapil Singh

Okay. And secondly, for the dealerships that we are expanding, what proportion of these dealers will be the same dealers who would be willing to open a second outlet?

Kevin P. D'sa, President, Finance

I don't have the answer to that, because I've not seen the LOI list. But, I would gather, it would be about 10% at the most, because one other thing that we are looking at, in case for example, and I'm just sharing this, its just quite possible that if it's a large dealer, we would like to probably derisk the business a bit.

Kapil Singh

Okay. So it is a conscious decision from the part of the company.

Kevin P. D'sa, President, Finance

Like I said, I don't have the full answer to this question. But my belief is that if there's a dealer that is there, we would like to derisk and therefore make sure that there is not too many eggs in one basket in a particular city.

Kapil Singh

Okay. Alright. Thank you.

Operator

Thank you. The next question is from the line of Sonal Gupta from UBS Securities. Please go ahead.

Sonal Gupta

Hi. Good evening, Kevin.

Kevin P. D'sa, President, Finance

Good evening, Sonal.

Sonal Gupta

Kevin, just a question, one on the financing side. What is the sort of level of financing that we have now on domestic sales? And secondly, if you could just add on to the plans because the distribution network I think there was a Economic Times article, it said you would be looking at expanding --?

Kevin P. D'sa, President, Finance

Yeah. Whatever, let me tell you Sonal, whatever has come in the Economic Times is come from the horse's mouth, that's from Mr. Shridhar, and that's the factual position. Most of the dealerships will be ready by end of March and sales should actually, you should see it happening by April, May on from these dealerships. The report is factually correct and there is nothing that I can add over there. And as far as the first question that you had was related to, if you can just mention that part?

Sonal Gupta

Sorry. With financing, what will happen --.

Kevin P. D'sa, President, Finance

The financing is at present we do not see financing, we have major issue right now. About 30% of our domestic sales is being financed by say Bajaj Finance, our own group company. And HDCF and ICICI are relatively small, ICICI is almost, I would say non-existent, HDCF is there. Now when I talk of 30% of financing is on a pan-India basis. But actually if we look at it, many of us are not present in Uttar Pradesh, Bihar, Orissa, North East, et cetera. So, if one takes our financing in the cities in places where finance is available, then it could be as high as 50%.

Sonal Gupta

Right. And do you see a significant impact of, I mean given that the rates are going up, that that really be a significant impact in terms of financing rates as well as demand for two-wheeler?

Kevin P. D'sa, President, Finance

Not really, because again, I would say that when the interest rates were low, we were charging the same rate as when the interest rates were high. So, today for example the additional margins of cushion were there with the NBFCs, that is getting reduced. But there's no significant pass-on that is taking place on these financing to the customer. If you look at it, the financing was taking place at about 26 to 28%.

Sonal Gupta

Right.

Kevin P. D'sa, President, Finance

And when the interest rates had come down also about a year and half back, it remained at that rate.

Sonal Gupta

Okay. So, you don't anticipate that the rates will go up further for two-wheeler financing?

Kevin P. D'sa, President, Finance

No, because at least, I'm talking two-wheeler financing, but I'm talking of Bajaj Finance.

Sonal Gupta

Right.

Kevin P. D'sa, President, Finance

Because we had anticipated this slightly rising scenario, so in the ALCO meeting we are actually taking a lot of long-term funds at reasonably good rates. So, I don't see us taking up the prices, and it will not affect our bottom-line significantly.

Sonal Gupta

Okay, sir. Great. Thank you so much.

Operator

Thank you. The next question is from the line of Vijay Mara from Fortune Financial Services. Please go ahead. Sir, this participant's line is disconnected. We move on to the next question. The next question is from the line of Mitul Mehta from Lucky Securities. Please go ahead.

Mitul Mehta

Yeah, hi. Good evening, sir and congratulation for a very robust quarter.

Kevin P. D'sa, President, Finance

Thank you.

Mitul Mehta

Sir, my question to you is pertaining to your three-wheeler business. As I rightly heard that we should be hitting about 40,000 number April onwards. Could you please give me the breakup between the domestic and export for this? And what is the current run rate as far as three-wheeler business?

Kevin P. D'sa, President, Finance

See, again I'm repeating, when we talk of 40,000 numbers. we are talking about 0.5 million, what Rajiv mentioned. It is not necessary that every month we hit 40, 40, 40...

Mitul Mehta

No, just a ballpark.

Kevin P. D'sa, President, Finance

No, but I'm just mentioning, being clear so that you all don't get --. I would say that exports will form a higher content of the entire sales. So, I would put it as exports being close to 60% and domestic being close to 40%.

Mitul Mehta

Okay. And sir, as far as your KTM and Indonesian venture goes, would it be possible for you to share the numbers, how the P&L looks like at this point of time?

Kevin P. D'sa, President, Finance

At this particular point of time, the consolidated profit and loss account for the nine months is higher than the standalone profit and loss for the period which is completely different from the past.

Mitul Mehta

Okay. Thanks a lot, sir.

Operator

Thank you. The next question is from the line of Sai Anjali Capital Markets. Please go ahead. Sir, this participant's line is disconnected. The next question is from the line of Jiten Doshi from Enam Asset Management. Please go ahead. Sorry, the next question is from the line of Deepak Jain from Sharekhan. Please go ahead.

Deepak Jain

Hi, Kevin.

Kevin P. D'sa, President, Finance

Hi there.

Deepak Jain

Can you explain the pricing environment in the commuter bike segment? Now you're also even launching 150 cc Discover. Do you think there is a market opportunity whereby a product is commuter -- upgrade it. So 150 cc can actually become a very, the most expanding segment? That's the first question.

Then the second question is, if the pricing environment gets aggressive in the sportier bikes, let's say in your core Pulsar segment or maybe in 150 cc Pulsar segment, and price points thereby reduced to under 50,000 levels. So, how do we see this 150 cc segment expanding? Will it cap the commuter segment pricing because the sportier segment pricing environment is getting aggressive?

Kevin P. D'sa, President, Finance

See, the way I would like to answer this is, the 100-150 et cetera, is more of a selling point rather than anything else.

Deepak Jain

Okay.

Kevin P. D'sa, President, Finance

It's more to my extent is the brand that we have one sells. Let's take for example, I'll not take my example, I'll take Honda Shine. Honda Shine sells from Rs. 44,000 all the way up to Rs. 51,000. Now, Shine with spoke wheel, kick-start, starts at 44.

Deepak Jain

Okay.

Kevin P. D'sa, President, Finance

And the Shine disc sells at 51.

Deepak Jain

Okay.

Kevin P. D'sa, President, Finance

So, there is a price point from 42 to 43,000 all the way up to about 51, Rs. 52,000 for the customer to choose.

Deepak Jain

Okay.

Kevin P. D'sa, President, Finance

Now within that, it is important for us to start breaking up into different segments and see what is the customer willing to buy, what is he wanting, et cetera. There'll be a customer who'll say that he wants only fuel efficiency and is willing live with it. So therefore, he may buy the 100 cc vehicle.

Deepak Jain

Okay.

Kevin P. D'sa, President, Finance

So it is this way that you are in a position to breakup the market.

Deepak Jain

Okay.

Kevin P. D'sa, President, Finance

So today, again, the perception of the customer is that if it's a 150 cc bike, it has to cost 55 or Rs. 52,000. But when we have launched the Discover at 46,000 or 47,000, the 150 cc Discover, people were laughing at it because we find its a unbelievable price.

Deepak Jain

Yeah.

Kevin P. D'sa, President, Finance

And that's what I think the company is, from our side, is trying to do that, it is not necessary that a 150 cc means that its low fuel efficiency and high price.

Deepak Jain

Okay.

Kevin P. D'sa, President, Finance

So for us, it is breaking up the commuter segment into these different categories, but basically again concentrating and stressing on the brand Discover and the brand Pulsar.

Deepak Jain

Okay.

Kevin P. D'sa, President, Finance

As far as the sports end is concerned, while more and more people need to come into the segment, I believe it's a big advantage to be the first mover.

Deepak Jain

Okay.

Kevin P. D'sa, President, Finance

When you are in a first mover advantage, you have already captured the image, you have already benchmarked, the rest automatically have to benchmark themselves against that product.

Deepak Jain

Okay.

Kevin P. D'sa, President, Finance

And they have to offer something significantly different for a customer to change his decision. So the benefit that we are enjoying in the Pulsar is something that the benefit Hero Honda is enjoying in the Splendor.

Deepak Jain

Okay.

Kevin P. D'sa, President, Finance

Now, while we are also completely focused on the Pulsar and we are, if I may use the word absolutely possessive and paranoid about that segment.

Deepak Jain

Okay.

Kevin P. D'sa, President, Finance

And that's why if you see even today's Pulsar is the fourth upgrade of the Pulsar that is coming to the market. And the Pulsar again will be coming up again with a completely new looks and new features hopefully by the next Diwali.

Deepak Jain

Okay.

Kevin P. D'sa, President, Finance

But the more competition that comes in is much better, because that's what the excitement is created and that's when the customer starts looking at the higher end and competitors' products become a little bit jaded in that sense.

Deepak Jain

Okay. Fine, thank you.

Operator

Thank you. Ladies and gentlemen, that was the last question. I would now like to hand the floor back to Mr. Anish Damania for closing comments. Please go ahead.

Anish Damania, Analyst, Emkay Global

On behalf of Emkay, I would like once again to thank all of you for joining the call today. And thank you Kevin for your time. Have a great day all of you.

Kevin P. D'sa, President, Finance

Thank you. Wish you the same.

Operator

Thank you gentlemen. Ladies and gentlemen, on behalf of Emkay Global Financial Services that concludes this conference call. Thank you for joining us and you may now disconnect your lines.