Bajaj Auto Q3 2014 Earnings Call 17 Jan'14

Operator

Ladies and gentlemen, good day and welcome to the Q3 FY 2014 Earnings Conference Call of Bajaj Auto hosted by Motilal Oswal Securities. As a reminder, all participants' line will be in a listen-only mode. And there will be an opportunity for you to ask questions at the end of today's presentation. Please note that this conference is being recorded. I now hand the conference over to Mr. Jinesh Gandhi from Motilal Oswal Securities. Thank you and over to you, sir.

Jinesh Gandhi

Thank you, Sharma. Good morning, everyone. On behalf of Motilal Oswal Securities, I would like to welcome you all to this 3Q FY 2014 post-results conference call of Bajaj Auto. Bajaj Auto is represented by Mr. Kevin D'Sa, President, Finance. We would like to thank Kevin for taking time out for the call. We'll start the session directly with Q&A session, over to you sir.

Kevin P. D'Sa

Thank you, Jinesh and thank you, everybody for attending the call. More than happy to take any of the question that you have.

Jinesh Gandhi

Yes, Sharma, we can start with the Q&A.

Operator

Yes. So we'll open the floor for questions now?

Kevin P. D'Sa

Yeah.

Q&A

Operator

Thank you. Participants, we will now begin with the question-and-answer session. We have the first question from the line of Pramod Kumar from IDFC. Please go ahead.

<Q - Pramod Kumar>: [ph] Thank you for the opportunity (01:40). Good morning.

<A - Kevin D'Sa>: Good morning, Pramod.

<Q - Pramod Kumar>: Yes. So my first question pertains to the Discover volumes because [ph] there have been (01:48) three new launches in the Discover family in the last one year, and how the volume as a family altogether has been shrinking to an extent. And so I just want to get your view on this as to what are the factors according to you driving this, and how do you see this eventually shaping up? And because Rajiv yesterday talked about on the 125cc, another one 25cc more launch in March. So just want to understand where would you ideally see the Discover family volumes once all these launches are played out?

<A - Kevin P. D'Sa>: [indiscernible] (02:17) as far as I look it, I would look at the Discover family as such giving us somewhere near 120,000 to 125,000 numbers per month which should happen by about June which will be the result of the Discover and that we have launched already sometime in October. And the new Discover that is coming up in February, beginning of March. And while you have mentioned there are a number of launches, I would say that finally by end of June, you would see basically three of main runners that will give us the volume. And others would be more of our little bit of what I call niche bringing up at 8,000 to 10,000 now.

<Q - Pramod Kumar>: So, there will be some – with all these launches 120s, what are you aiming because we used to do around that kind of a range even last year?

<A - Kevin P. D'Sa>: Like I'm saying, my expectation will be much higher, and that's why I'm giving you a figure that by June. So, that's my first step but I hope to achieve the 120,000 number, especially significantly higher than that. But currently the reality is that we are doing about 80,000, so I'm talking about 50% growth from here.

<Q - Pramod Kumar>: And sir, even in premium, there's been some market share erosion, actually. I know it seems to be picking up and of course all in [indiscernible] (03:27) segment rating into this category. So, what would be the product launch back [indiscernible] (03:32) because we have been hearing about the new Pulsar and more derivatives of the 200 as well?

<A - Kevin P. D'Sa>: No, if you look at the market share of mine, normally, when we take out the market share slightly different from the way you will take it out [indiscernible] (03:47) that's about 3% overall market.

The sports segment that the Pulsar [indiscernible] (03:55) 14% of the market. And my market share over there for the last year and for the current nine months is ranging on about 46%, which has not shown any duration at all in the numbers.

<Q - Pramod Kumar>: Okay. But I think in the recent one or two months there has been [indiscernible] (04:09) picked up and Hero has lost certainly bigger YoY. But I think I get your point as in, if you exclude [ph] RE (04:16), then there's not much of a [ph] thing (04:17). But Pulsar's launch pipeline has significant growth...

<A - Kevin P. D'Sa>: We had some [indiscernible] (04:20) definitely we mentioned it once it's there. Right now, what are the launches for 2014-2015 is not in the public domain. And therefore I'll wait for that before we really – I could be able to elaborate further.

<Q - Pramod Kumar>: And, sir, export market [indiscernible] (04:35) as to which and how generally the markets are doing and how do you see the growth going forward because last quarter has been – the last two quarters have done – have seen a kind of a comeback on exports. So, how do you see that part of the business?

<A - Kevin P. D'Sa>: As far as export is concerned, very much on track. There was, what I would say, the start of the year certain headwind that were taking place. Most of the headwinds have been – come off. Egypt is back to normal. But when we're talking of a larger market versus selling about 150,000 vehicles in these countries and never talking about [ph] 35 other (05:05) countries, we'll always get one or two countries that is having some glitch and I think we are going to deliver that.

Now, for example, there's a little bit of a problem in Bangladesh because of election, but that is part and parcel of the entire game. I would say that, as far as the exports are going, [indiscernible] (05:20). Certainly, Indonesia is looking exciting. Philippines continues to do well. Africa and turning to more countries, penetration has gone up over there. So, I'm very confident of my exports both in numbers and value of course.

<Q - Pramod Kumar>: And including that [indiscernible] (05:36) for three-wheelers because...

<A - Kevin P. D'Sa>: [indiscernible] (05:37) that.

<Q - Pramod Kumar>: Okay. Fair enough. And thanks a lot and I'll come back in the queue. Best of luck, sir.

<A - Kevin P. D'Sa>: Thank you, Pramod.

Operator

Thank you. We have the next question from the line of Hitesh Goel from Kotak Securities. Please go ahead.

<Q - Hitesh Goel>: Good morning, Kevin.

<A - Kevin P. D'Sa>: Good morning.

<Q - Hitesh Goel>: Kevin, on the first question on exports, if you you'd look at Q-on-Q relation and exports, it's going down. So, although on a nine-month basis, the relations are much higher than what the rupee rate is because of the product mix. So, can you highlight some other factors driving exporting SPs?

And secondly, on the [indiscernible] (6:13) export market share, if I look at, the U.S. has actually gained quite a bit. So, is that due to [ph] being strong (6:18) in certain markets where the demand is higher? Is that the reason? Or can you highlight that also, I mean, what is happening in that market?

<A - Kevin P. D'Sa>: Sure. If you look at the, [ph] the only reason (6:30) that we take is between quarter one, quarter two and quarter three, there will be the average rupee [indiscernible] (6:37) for quarter two has been 60.9, and for the quarter three also did 60.9, whereas in quarter one, we collected refund in the order book, 55. So to that extent, the [indiscernible] (6:46) quarter two or beginning quarter three and quarter one has gone up. But between quarter two and quarter three, where we must – seeing a significant elevation, our ASP going up. And that is made up of two really basic reasons. One is the mix that was slightly adverse in that sense; and two, in October, we had inevitable price rationalization in a few markets in Africa. And that I have been mentioning to all of you [indiscernible] (7:10) met me on a one-on-one basis.

Q – Hitesh Goel>: No, why all this price rationalization taken because you are already at a premium [indiscernible] (7:19) Chinese player and stuff? Is there a strategy, or what is the strategy behind it because a price cut will not get you much market share?

<A - Kevin P. D'Sa>: No, no, no, no. It's not getting market share. I mean, the markets, for example in Africa, of course, the affordability was an issue, not on market share gain by consumer market.

Q – Hitesh Goel>: Okay. And, also on the same topic, I just wanted to know [indiscernible] (7:43) exceeded logs, I mean, how would the pricing be different versus U.S.? Say, for example, in [indiscernible] (7:51) the product. I mean, they are seeing [indiscernible] (7:52).

<A - Kevin P. D'Sa>: As far the [ph] C-D (07:53) is concerned and the information that I have in for the share of market at launch. [ph] The prices almost are the same as the Bajaj Boxer.

<Q - Hitesh Goel>: Okay, same pricing. And finally, on that export question of mine, the [ph] premium (08:07) exports, TVS has done much better than you. Is it due to markets or the markets that they are strong on or they're gaining [ph] in 200cc (08:13)?

<A - Kevin P. D'Sa>: No. I think the reality is that there are certain markets that they have entered in before us. And I think Tanzania is one of them.

<Q - Hitesh Goel>: Okay.

<A - Kevin P. D'Sa>: And secondly, there was one market that there was a little bit of lethargy on the dealership side as we mentioned. So to that extent, we lost out a little bit. But that will be made up because that bidder has been replaced.

<Q - Hitesh Goel>: Okay. So Egypt, they are not much of a player, right?

<A - Kevin P. D'Sa>: No, no.

<Q - Hitesh Goel>: So if that...

<A>: A particular large market as you know, number of countries, so the places that they have gone in before us, this is where they had a bit of an advantage.

<Q - Hitesh Goel>: Okay. Okay, sir. Thank you.

<A - Kevin P. D'Sa>: Thank you, Hitesh.

Operator

Thank you. We have the next question from the line of Nishit Jalan from Nomura. Please go ahead.

<Q - Kapil Singh>: Hello?

<A - Kevin P. D'Sa>: Good morning, Nishit.

<Q - Kapil Singh>: Sir, hi. This is Kapil.**<A - Kevin P. D'Sa>**: Oh, Kapil.**<Q - Kapil Singh>**: Sir, I just wanted to check, on the cost side, are the costs for third quarter a little bit higher than

where you will be right now?**<A - Kevin P. D'Sa>**: No. The third quarter is like – I will re-clarify. Unlike the other automobile companies who do a

six-monthly contract and actually finalize the contract in the middle of the quarter, we do it every quarter, at the start ofthe quarter.**<Q - Kapil Singh>**: Okay.**<A - Kevin P. D'Sa>**: So in our case, for example, between the second quarter and the third quarter,

all costs had gone
up significantly by steel, aluminium and other areas. When it comes to – I would say that the third quarter seems to be the highest in terms of material cost.

<Q - Kapil Singh>: Right.**<A - Kevin P. D'Sa>**: As I go in to the fourth quarter, I would see that aluminum has come off a bit. So I will get somebenefit in aluminum. But net-net, I would say that we are marginally decrease but not a significant increase.

<Q - Kapil Singh>: Okay. Okay. Got it. And also on some price reductions that we have taken in export markets, doyou see, is it because the currencies over there are also depreciating so you have to maintain a certain pricing level?**<A - Kevin P. D'Sa>**: No, no, no. It is purely purely voluntary from our side. And like I'd spoken to you, [ph] capital
(10:27) also as well and that in these markets, for example, affordability is the biggest challenge. Take, for example, Nigeria. The two-stroke vehicles have been banned. The two-stroke vehicle which are priced at [ph] 70,000 (10:40) and the four-stroke vehicle or the Boxer is priced at say NGN 120,000.

To make the vehicle little affordable, keeping in mind the fact that the rupee has depreciated over here. In Nigeria and a little or few other African countries where pricing is the biggest issue in terms of expanding the market, not gaining market share, is where we have done this and the results are very clearly seen as the retail sales had gone up significantly in these markets.

<Q - Kapil Singh>: Okay. So this was done at the beginning of October.**<A - Kevin P. D'Sa>**: October. That's right.**<Q - Kapil Singh>**: Yeah. And that's why we have seen uptick in two-wheeler exports as well.**<A - Kevin P. D'Sa>**: That's right.**<Q - Kapil Singh>**: And three-wheeler side also did the same thing?**<A - Kevin P. D'Sa>**: Three-wheeler, it was not required to be done.**<Q - Kapil Singh>**: Okay. So if the currency depreciates further, is there – I mean, would you look to gain benefits of

that to further growth.

<A - Kevin P. D'Sa>: Now let me put it this way. There is no requirement for us to reduce prices in order to gainmarket share because the prices of production determines on that basis.**<Q - Kapil Singh>**: Okay.**<A - Kevin P. D'Sa>**: The way I would like to look at it is whether I can expand the market in these things. So there is
no compulsion. And like I said, when we deal for Nigeria, the dealers were surprised as well as the customers were very, very happy.
<Q - Kapil Singh>: Okay. Okay. And finally on RE-60, I mean, we understand that in the domestic market, there is a six-month period after which we'll come to know what exactly happens. But in the export market, are there new markets or existing markets there either RE-60 will replace the existing three-wheelers or be added on as an additional product? If you can give some insights into that.

<A - Kevin P. D'Sa>: [ph] Singh, whatever (12:19) we are talking, whether it's in India or whether it is exported, theRE-60 is going to be an add-on.**<Q - Kapil Singh>**: Okay.**<A - Kevin P. D'Sa>**: And each of them, we believe, will have their own space.**<Q - Kapil Singh>**: Okay.**<A - Kevin P. D'Sa>**: So, I would not like to say it will replace our three-wheelers. I didn't say it either.**<Q - Kapil Singh>**: And are there...**<A - Kevin P. D'Sa>**: [Inaudible] (12:39)

<Q - Kapil Singh>: Sorry, go ahead.**<A - Kevin P. D'Sa>**: And I would say that because the products are ready, they could have been sent to a fewcountries [indiscernible] (12:46), and we would like the bikers into a new concept altogether. We'd like the bikers torun on minimum amount, X amount of kilometers, before we get a full feedback. And that's why I'm saying ourproduction is set to start at [indiscernible] (12:58). We will probably start the entire production of [ph] Sentra (13:02) inthe early second quarter. Maybe [ph] with cycle teams (13:09).

<Q - Kapil Singh>: Okay. And exports also start around that time?**<A - Kevin P. D'Sa>**: It all depends on capital. Very clearly, it depends on that. But we will not set out right now plan

of prioritizing the whole thing. But if the six-month period gets delayed, then there's no hesitation on our side toalready launch the exports.**<Q - Kapil Singh>**: Okay. Any indication that you can give on the capacity that we are starting off with?**<A - Kevin P. D'Sa>**: I would say that the capacity would be probably at 260,000 initially per annum. And then as the demand peaks up, we'll build that forward.**<Q - Kapil Singh>**: Okay. Thanks. Thank you.**<A - Kevin P. D'Sa>**: Thank you. We have the next question from the line of Pramod Amthe from CIMB. Please go

ahead.**<Q - Pramod Amthe>**: Hi, Kevin.**<A - Kevin P. D'Sa>**: Morning, Pramod.**<Q - Pramod Amthe>**: Morning. Couple of questions. One, the slowdown spreading to three-wheelers and

two-wheelers in the recent months, how do you see that? Is it expected or is it surprising to you guys or...**<A - Kevin P. D'Sa>**: As far as three-wheelers goes, I personally was surprised.**<Q - Pramod Amthe>**: Okay.**<A - Kevin P. D'Sa>**: One would normally see three-wheeler sales come off in December and normally what I see is
post Diwali, a lot of three-wheelers gets financed and the financing to the part of the broker side that the brokers normally tend to go after the collections rather than financing. And financing is that it's completely low in the month of December because people don't want to finance a 2013 model when the 2014 is coming up in the corner, but that is applicable every year.

<Q - Pramod Amthe>: Okay.**<A - Kevin P. D'Sa>**: And therefore they fall to about 11,000 domestic three-wheelers has very clearly surprised me.**<Q - Pramod Amthe>**: Okay.**<A - Kevin P. D'Sa>**: The only positive part of this entire thing is that with the new [indiscernible] (15:00) coming out
in Maharashtra which hopefully will start sometime in March [indiscernible] (15:07) positive side. And also, what I read in the papers is that the lead government are [indiscernible] (15:13) government is approaching the Supreme Court for another 50,000 [ph] bonus (15:17) to be released.

<Q - Pramod Amthe>: Okay.

<A - Kevin P. D'Sa>: So, I see no negative in terms of the three-wheelers potential for growth. Though in the nearterm, the decline has partially surprised me.**<Q - Pramod Amthe>**: Okay. And coming to two-wheelers, do you know [indiscernible] (15:34)**<A - Kevin P. D'Sa>**: [indiscernible] (15:35) build up is again what I had mentioned to many of the people who I have
met was very, clearly, this year and normally what happens [ph] this (15:43) post Diwali, but didn't shift to all dry and that's what November, December is good for the OEMs to put in the base of stock. This year, as I have mentioned, was the fact that post Diwali also dealer that carrying term for 10-day stock, and therefore, November, December in any case for the industry would be low.

Having said that, not only the billing, but even the retails that took place post [indiscernible] (16:05) has been down.

In January, we have seen an improvement but improvement when I'm talking about is sequentially and not

January-to-January. If I also look at for the industry, I'm not saying for Bajaj, let us look at the industryJanuary-to-January. I would say it's flat to negative 3%.**<Q - Pramod Amthe>**: Okay.**<A - Kevin P. D'Sa>**: But the true market normally emerges post 15 January.**<Q - Pramod Amthe>**: And in that context, any ballpark numbers for FY 2015 for the industry growth?**<A - Kevin P. D'Sa>**: Not yet. I think a true sense for the industry will be coming out only by end of February when
this rural story and this money that's come in, the good crops that sits over the spanning out and not, I think a better feel
will come in more towards the end of February, beginning of March.

<Q - Pramod Amthe>: And for you, especially how you set the targets for exports for FY 2015?**<A - Kevin P. D'Sa>**: No, not yet. That exercise is normally done end of February, then it's presented to the board bythe third week of March.

<Q - Pramod Amthe>: Thanks and all the best.

Operator

Thank you. We have the next question from the line of Amyn Pirani from Deutsche Bank. Please go ahead.

<Q - Amyn Pirani>: Yeah. Hi. So thanks for taking my questions. Sir, [indiscernible] (17:21) mentioned somethingabout cost increases of the three-wheeler side which could not be passed on.**<A - Kevin P. D'Sa>**: Yeah.**<Q - Amyn Pirani>**: So could you just help us understand what was the nature of this cost increases and are these new

models now available across domestic and exports or is it only for a domestic market?

<A - Kevin P. D'Sa>: No. For the cars, [indiscernible] (17:42) that we do, whenever we make the vehicles and upgraded the vehicles. It is commonized for the domestic as well as export because we cannot have separate lines of the two markets. What we did is, we did a lot of quality improvements within the product. Took care some of the pain areas and we had a complete facelift of the model three-wheeler that was launched out. This resulted in a cost increase of about INR 4,000.

<Q - Amyn Pirani>: Okay.

<A - Kevin P. D'Sa>: Now the INR 4,000, if you translate it in terms of – after adding the excise duty, the dealer margin, sales tax and that would have translated to over – in price increase of over INR 6,000 for a three-wheeler. That was not passed on completely. We absorbed some of the cost. Now these facelifts were introduced sometime in the middle of September. And therefore, our third quarter reflected the increased cost which was absorbed by the company on the three-wheelers.

<Q - Amyn Pirani>: Okay, okay. So I mean would you – I mean normally, is this is what you normally do or generally you were able to pass on, but this time around, you have had difficulties. I'm assuming the export market you, could have still passed on?

<A - Kevin P. D'Sa>: I'll answer in two ways. Any cost increase that is coming on account of the raw material, et cetera, is very easy to pass on because that comes to [ph] applied (19:00) price increase of about INR 1,000 or INR 2,000 in total. But when you're talking about facelift and which is a new model and it cost INR 6,000, it's very difficult to do it upfront in one go.

So we do it in phases. For example, now on 1st of January, we are taking up the cost vehicle prices of three-wheelers by INR 2,000. Similarly, when it comes to the material cost being as a higher [indiscernible] (19:23) has gone up, it's also with the rupee but which in the end of second – first quarter INR 55 and it has hit INR 60. And in the third quarter when the material cost has gone up, whether for motorcycles or whether for three-wheelers, we have absorbed it as far as the three-wheelers or as far as the export market is concerned because the export market is way ahead of our budgeted profit.

<Q - Amyn Pirani>: Right. Okay. And are you seeing any similar cost pressure on the two-wheeler side as in, do you think you will be able to pass on cost increases like you were able to do in the last one year on the two-wheeler side as well?

<A - Kevin P. D'Sa>: Like I just mentioned in the earlier question, I think the fourth quarter will be relatively flat compared to the third quarter. As far as the cost increase goes, going forward it also will depend on the relative positioning of the production in the industry and the competitive situation.

But as an industry, obviously, historically and even if you'll see the current year that is the year they're just getting over of 2013, 2014, we have seen a situation whether that is Hero, whether it is Honda, whether it'd be Bajaj or whether it's TVs, we have passed on the cost of the motorcycle to the customer. Our cost increase – increase in the motorcycle cost by about INR 400 to INR 500 is not a major challenge for any other manufacturers.

<Q - Amyn Pirani>: Okay. And you're not, even now not seeing any price cuts or discounts, either by any of the competition even now?

<A - Kevin P. D'Sa>: Not at all.

<Q - Amyn Pirani>: Okay, okay. Understood. Thank you. Thanks a lot.

Operator

Thank you. We have the next question from the line of Sahil Kedia from Barclays. Please go ahead.
<Q - Sahil Kedia>: Sir, thank you for the opportunity. Can you just give us an update on how the Kawasaki tie up in Indonesia is doing in terms of volumes?

<A - Kevin P. D'Sa>: Kawasaki Indonesia tie up is, I'll break it up into two parts, Sahil, is one is when we went into Indonesia on our own and that's why you will see the last year, the vehicle that we are selling to Indonesia, we sold approximately over 10,000 numbers in the last year. And of the total number, Indonesia was leading and you'll see that we have been actually having cash loss of about INR 30 crores every year in Indonesia.

By winding up our own operations and by billing it now to Kawasaki, we have done approximately 6,000 numbers to Kawasaki in these four months, starting September.

<Q - Sahil Kedia>: Okay.

<A - Kevin P. D'Sa>: We would end this year at about – closer to about 9,000 numbers. And I would say, on a whole-year basis for the next year, my conservative estimate for the Indonesian market for us would be about 27,000, 30,000 numbers.

Now, on the [indiscernible] (22:07) to Kawasaki, we made the same [ph] desired (22:08) margins on the Pulsar as we get a share.

<Q - Sahil Kedia>: Okay.

<A - Kevin P. D'Sa>: So, on one side, what is happening, the bidding that was taking place in Indonesia is complete. And, on the other side, there is a price [ph] rendition (22:25) by getting our sales into Indonesia at our normal market price, giving us [ph] our desired margins (22:29).

And therefore, for the nine months that we have declared the results, it includes an impairment of Indonesia by about INR 55 crores in the nine months.

<Q - Sahil Kedia>: Okay. Sir, can you help me understand that after your total export that you do on the motorcycle side, how much of this is coming from the Boxer? And with Indonesia that was [ph] building (22:56) up, is that share likely to fall in the next two, three years?

<A - Kevin P. D'Sa>: I would believe, as a percentage, since our major part is coming from Africa, the Boxer CT would be coming approximately about 55% or 60% in number terms of the total exports.

<Q - Sahil Kedia>: Okay, sir. And so, one other question, I think, how are you hedged for FY 2015 on your export side?

<A - Kevin P. D'Sa>: As far as I could say, this concern, we are taking [ph] a share upsize (23:24) of our return, our minimum [ph] ties (23:28) of about 60%. And we're giving out, about a higher and maybe about 70%. So, what it means is that the rupee comes below 60%, but if it grows all to 70%, I will get 70% [indiscernible] (23:36) and therefore, my view very clearly has not [indiscernible] (23:43) or anything. I think I should be safely getting at about INR 62.5 to the dollar next year as against INR 60 that I'll collect in the current year.

<Q - Sahil Kedia>: How much of next year's exposure have we hedged so far and what do we expect to take it up to?

<A - Kevin P. D'Sa>: We have hedged about INR 700 million at this point of time.

<Q>: – Sahil Kedia: All right. Thank you so much.

Operator

Thank you. We have the next question from the line of Aditya Makharia from JPMorgan. Please go ahead.

<Q - Aditya Makharia>: Yeah. Hi, Kevin.
<A - Kevin P. D'Sa>: Good morning, Aditya.

<Q - Aditya Makharia>: Just on the three-wheeler side, you did mention that volumes came really low, but there wassome market share loss in the month of December. So, is that model for a one-off while you...**<A - Kevin P. D'Sa>**: It's a one-off, Aditya. Actually, one-off and that's not an issue at all. If we go forward in

February, March, you will see us recovering those volumes. Not an issue at all.**<Q - Aditya Makharia>**: Sure. Second thing is for the current quarter, we realized INR 61 on the rupee for exports.**<A - Kevin P. D'Sa>**: [ph] INR 60.9 (24:45), so that's INR 61, which is the same that we realized for the second

quarter.**<Q - Aditya Makharia>**: Okay. Thanks, Kevin.

Operator

Thank you. We have the next question from the line of Chirag Shah from Axis. Please go ahead.**<Q - Chirag Shah>**: Thanks for the opportunity. Kevin, first question would be on this forex accounting that has

happened in the quarter. So, first on the – this forex loss that you have mentioned pertains to what exactly? Is it more[ph] MTM (25:15) kind of a nature?**<A - Kevin P. D'Sa>**: It's a gain here, not a loss.**<Q - Chirag Shah>**: Oh, sorry. Gain, yeah. Sorry. So, it is

MTM basically?**<A - Kevin P. D'Sa>**: It's the reversal that was taking place with the earlier charge.**<Q - Chirag Shah>**: Okay.**<A - Kevin P. D'Sa>**: So, you will see the first two quarters, I took a charge of INR 6 crores in the first quarter.**<Q - Chirag Shah>**: Yeah.**<A - Kevin P. D'Sa>**: And at INR 35 crores this second quarter.**<Q - Chirag Shah>**: Yeah.**<A - Kevin P. D'Sa>**: INR 39 crores. Out of that, as the contracts mature, it will reverse.**<Q - Chirag Shah>**: Yeah, fair point.**<A - Kevin P. D'Sa>**: So the INR 96 crores has reversed and that's why I'm saying, I gave you INR 96 crores

reversing. I would estimate another INR 35 crores gain coming in the fourth quarter.**<Q - Chirag Shah>**: Okay.**<A - Kevin P. D'Sa>**: So at the end of the year, the total net outstanding would be about INR 10 crores to INR 15

crores at the most but [indiscernible] (25:58) final quarters taking INR 14 crores, INR 15 crores.

<Q - Chirag Shah>: Okay. And in the other income schedule, you have highlighted under the head, Others, INR 95

crores.

<A - Kevin P. D'Sa>: Correct.

<Q - Chirag Shah>: Is there any realized gains helping realized gain or any one-off kind of things helping over there?

<A - Kevin P. D'Sa>: Actually, nothing at all.

<Q - Chirag Shah>: Nothing at all. For these others, basically it's also a kind of credit income for you or what does

that do too?**<A - Kevin P. D'Sa>**: When we talk of the others, it's basically it is the others we're selling on top of the sellingformula, the operating income that is reported in the block right on top, the only what I would call the situation that weare talking is of royalty products and services.

<Q - Chirag Shah>: Okay. So that forms part of others?**<A - Kevin P. D'Sa>**: No. That forms part of other income if you see my [ph] press blocks (26:47)...**<Q - Chirag Shah>**: Yeah, yeah. Yeah.**<A - Kevin P. D'Sa>**: ...it's either 1A or other operating income. So after next year, there's a topic on other operating

income. But other operating income of INR 106 crores, you will need to draw back scrap and royalty that we receive.**<Q - Chirag Shah>**: Yes. And other income better to break [inaudible] (27:06)?**<A - Kevin P. D'Sa>**: Yes.**<Q - Chirag Shah>**: Yeah.**<A - Kevin P. D'Sa>**: It is basically made up in these three items. So first item is unaccounted treasury, which you can

see my note, it is very – in the block that is shown very clearly the breakup. It is showing as INR 136 crores.**<Q - Chirag Shah>**:

Yes.**<A - Kevin P. D'Sa>**: The second item is others at INR 94 crores. This is made up of other items of income that is pertaining to the automobile activity such as, for example, sudden portions such as tradition back, interest that come for dealers. In this quarter, the 94 that you're seeing includes an element of INR 38 crores, that is a [indiscernible] (27:44) that are generated on prepayment of a sales tax loan that we want in [indiscernible] (27:50).

<Q - Chirag Shah>: Okay. INR 38 crores.

<A - Kevin P. D'Sa>: Yeah. And therefore, the entire breakup of that which is very clear and nicely explained is givenin my press release are the very topic, too, of the results.**<Q - Chirag Shah>**: Yeah. Okay, so INR 38 crores is there. And was there similar amount last year also?**<A - Kevin P. D'Sa>**: No.**<Q - Chirag Shah>**: No.**<A - Kevin P. D'Sa>**: But we're creating a one time.**<Q - Chirag Shah>**:

Yeah. And Kevin, on the export side again coming back to the question of realizations, so is there a sharp drop that we have seen in average USD realization that are attributable to the pricing action that you've done in Nigeria? Or there are other pricing actions you have done?

<A - Kevin P. D'Sa>: It's also a mix change, no?**<Q - Chirag Shah>**: Yeah. Apart from the mix change, because mix change doesn't warrant such a sharp pricingaction. So, there are pricing drop.

<A - Kevin P. D'Sa>: Because of my rupee realization, it's 60.9 to the dollar, both in second quarter and in the thirdquarter.**<Q - Chirag Shah>**: Yeah.**<A - Kevin P. D'Sa>**: This change is a reflection of this price collection that has been done in these markets.

<Q - Chirag Shah>: Okay.**<A - Kevin P. D'Sa>**: To some extent. Again, to some extent, you must understand that we also have rupee exports.**<Q - Chirag Shah>**: Yes.**<A - Kevin P. D'Sa>**: Which is Nepal and Sri Lanka and to Iran. And that does not stop the numbers to that extent.**<Q - Chirag Shah>**: Fair point. And if I did this MTM reversal that you have made during the other results, your

margins would come to simply 20.3%.**<A - Kevin P. D'Sa>**: 21.1%, and that was in my press release.**<Q - Chirag Shah>**: Yeah, yeah, 21.1%. Okay. I like the other income posting order.**<A - Kevin P. D'Sa>**: Fair enough.**<Q - Chirag Shah>**: So, for the ensuing quarter, you highlighted cost pressure the lower, you have raised prices for the

three-wheeler by INR 2,000. So, there will be lower under recovery over there in that sense. So, there should be a

reasonable improvement in margins, or are there any other cost pressures which are likely to come in fourth quarter?**<A - Kevin P. D'Sa>**: Don't jump to that conclusion. The simple thing is, like I've mentioned to you, that I am low onthe Discover. I want to increase my Discover. As I go into the net quarter and going forward, the Discover will form ahigher percentage of my domestic sales. Secondly, in order to promote the two vehicles, there'll be ad spends that willtake place. And hence, to say that some 21.1% it will go higher because of this [indiscernible] (30:06) will be incorrect.

<Q - Chirag Shah>: Fair point. Fair point. This was helpful. And last question is on the industry side, on the

three-wheeler demand outlook. How is the replacement demand shaping off late? Can you shed some light because**<A - Kevin P. D'Sa>**: No comment. Your comment is something which you cannot take a call beyond that point. Itdepends upon how government, each state decides on that.

No I won't comment on that. All I can say is, other than the positive side is for example, the replacement of 15 yearsvehicle in Mumbai is seeing a replacement cycle in Mumbai of about 1,200 vehicles a month.**<Q - Chirag Shah>**: Okay.**<A - Kevin P. D'Sa>**: But nationally, what is happening, I really don't have the figure.**<Q - Chirag Shah>**: Fair point. Fair point. This was helpful. Thank you, Kevin.**<A - Kevin P. D'Sa>**: Thank you.

Operator

Thank you. We have the next question from the line of Vasudev Banerjee from Quant Capital. Please go ahead.

<Q - Vasudev Banerjee>: Hi, Kevin. Thanks for taking my question. A couple of things, as you said that under recovery of the facelift three-wheelers last quarter, broadly can one assume all the three-wheelers sold were of the facelift version or...?

<A - Kevin P. D'Sa>: All, all, all, because we switched over completely on around 15th of September.

<Q - Vasudev Banerjee>: Sure, sure. And second this is, I remember once in a con call you said that part of the export revenue contribution is also from the hedging losses. It contains also some element of hedging loss or gain. So is there any such element this time?

<A - Kevin P. D'Sa>: No. What happened over there is a very minor item that comes in. And as many of you saw it, reevaluating your debtors and [ph] your receipt (31:51) balance as of end of the quarter. So they're not significant at all in that sense because the rupee remains flat. It makes a difference if, at the start of the quarter and at the end of the quarter, there's a wide fluctuation in the rupee because the debtors and the balance that are holding [indiscernible]

(32:10) has reevaluated that.**<Q - Vasudev Banerjee>**: Sure. Thanks. That's all from my side.

Operator

Thank you. [] We have the next question from the line of Kaushal Maroo from Emkay Global.

Please go ahead.**<Q - Kaushal Maroo>**: Hi, Kevin. In the export markets, do you think in geography, do you cover most of youraspirational markets or do you think there are larger motorcycle export markets that you still need to cover?

<A - Kevin P. D'Sa>: Still a lot more. Still a lot more. We are looking at Turkey for example, there is still Brazil to be

taken. Probably still Vietnam. There is still Myanmar. There's still Malaysia. There are a lot more markets.**<Q - Kaushal Maroo>**: Okay. So, on an average, how many countries we would be adding every year in terms ofexport markets now?

<A - Kevin P. D'Sa>: I won't be able to comment on that here because in Africa, if you talk of countries, they are like

states in India.**<Q - Kaushal Maroo>**: Okay. Okay. And on your [ph] preview (33:09) list, would it be possible to give us –approximately, how much do you think is the replacement sales in the domestic market? How much [ph] intrinsic gains(33:17)?

<A - Kevin P. D'Sa>: No figures that I can share with you, because whatever I share with you...**<Q - Kaushal Maroo>**: Can you

give an estimate?**<A - Kevin P. D'Sa>**: ...anytime it will be completely wrong on me to say that.**<Q - Kaushal Maroo>**: Okay.

Are there breakup in terms of MCP for mid-based markets and non-permit based

markets in petrol and diesel?

<A - Kevin P. D'Sa>: I would put it this way as far as diesel goes. It is about a 7,500 to 8,000 numbers, which if you'retalking of in-city, I would talk of about 7,000 numbers.**<Q - Kaushal Maroo>**: Okay. Okay. Thanks a lot, sir.

Operator

Thank you. We have the next question from the line of Ravi Baid from Union KBC Mutual Fund. Please go ahead.**<Q - Ravi Baid>**: Good morning, sir.**<A - Kevin P. D'Sa>**: Good morning.**<Q - Ravi Baid>**: Mr. Bajaj yesterday in his interview expected to export volumes to be 200,000 by March. My

question is, is this rate sustainable from, or will this rate be sustainable for here on and could we break this into

two-wheelers and three-wheelers? Thanks.**<A - Kevin P. D'Sa>**: I don't know. I've not heard Mr. Bajaj speaking that's why I won't comment on that. And I reallydon't know whether he mentioned 200,000.

<Q - Ravi Baid>: Okay. Sure. Thank you.

Operator

Thank you. We have the next question from the line of Mr. Hitesh Goel from Kotak Securities. It's a follow-up

question. Please go ahead.**<Q - Hitesh Goel>**: Yeah. Hi. Thanks. A follow-up question on the Bajaj Boxer, you said Boxer is at NGN NGN120,000 in Nigeria. So, this is Boxer 150 right. What could be the difference between Boxer 150 and the normal Boxerand what could be the mix in African market, if you can just give me a sense.

<A - Kevin P. D'Sa>: Primarily, it's the Boxer 150 that goes into this thing and it's between 110,000 and 120,000.**<Q - Hitesh Goel>**: The normal Boxer?**<A - Kevin P. D'Sa>**: Yeah.**<Q - Hitesh Goel>**: NGN 110,000?**<A - Kevin P. D'Sa>**: Yeah.**<Q - Hitesh Goel>**: And how has this price increased over last one year on Bajaj Boxer?**<A - Kevin P. D'Sa>**: I don't know about one year back but I would say that as I've told you, it has moved up over the

last four years from NGN 70,000 to NGN 120,000.**<Q - Hitesh Goel>**: Okay. And what could be the mix in term of the normal Boxer and the Boxer 150?**<A - Kevin P. D'Sa>**: I think it's – this is normally about – for example in Egypt, it is all 150, whereas in the rest of the

market, it could be I think about 80% with the 150 but I could be wrong. [indiscernible] (35:41) over here.

<Q - Hitesh Goel>: You know why I'm asking this is because your export realizations are higher than the rupee benefitthat you are getting. So, it is largely due to Boxer 150 or there's market mix involved here?**<A - Kevin P. D'Sa>**: There's a market mix involved.**<Q - Hitesh Goel>**: Okay, okay. Okay, thank you. Thank you, again.

Operator

Thank you. We have the next question from the line of Srinivas Rao from Deutsche Bank. Please go ahead.

<Q - Srinivas Rao>: Kevin, hi. Srini, here. Thank you very much for taking the call. I just wanted to understand your thoughts around the Discover brand in India, where we have seen some launches in the past in a couple of months, probably not the expected impact. So, how do we think about that segment of the market for the next 12 to 18 months?

<A - Kevin P. D'Sa>: As far as we are concerned, when I look at domestic market, I would say that there are three segments, as you know. On the Platina segment, I'm fine, where I have my market share impact. In the Pulsar segment, it's fine where I've also been a market leader with about 46%, 47%.

<Q - Srinivas Rao>: Yes.

<A - Kevin P. D'Sa>: 65% of the market, which is where Discover was placed also enjoying a significant market share [indiscernible] (36:56).

<Q - Srinivas Rao>: Yes.

<A - Kevin P. D'Sa>: And the entire strategy and the entire focus of the company is to regain this market share, reason will be basically through the Discover 100 M and the new Discover that will come in.

<Q - Srinivas Rao>: Okay.**<A - Kevin P. D'Sa>**: Again, the strategy over here, we'll be offering products that are much superior and much more

differentiated from the rest of the products. That's what we'll attempt to do. I understand and I agree 100% that earlierthe 100T, whether you call it as the 125T?**<Q - Srinivas Rao>**: Yeah.**<A - Kevin P. D'Sa>**: [ph] And you have not lived up to this (37:28) mark. I mean, this could be different and it could
be many. [ph] It's really hard (37:33) to pinpoint. But with the [ph] 100 T (37:37) that we have launched, we have found a lot of positive traction that's coming. So, for example, in January, with the production, our capacity available, you should be doing 50,000 numbers.

<Q - Srinivas Rao>: Oh, okay. That's good. Okay.**<A - Kevin P. D'Sa>**: With the 125 coming in March...**<Q - Srinivas Rao>**: Right.**<A - Kevin P. D'Sa>**: ...I believe, all put together, there is no reason why we should not be hitting 105,000 to 110,000

Discovers by March. This is my very conservative figure.**<Q - Srinivas Rao>**: I understood.**<A - Kevin P. D'Sa>**: Which therefore, 00:38:05 will be higher, our first target is, at this point in March,

[indiscernible] (38:12) loss market share. [indiscernible] (38:16) is the attempt to gain market share. So, [ph] by means

of (38:21) getting back from the 21% to 34%, is what we'd like to achieve by March and April.**<Q - Srinivas Rao>**: Okay, okay, okay. And the once existing models, which are in the market, right, just whathappens to the inventory of the ecosystem around that? That's not a major challenge?

<A - Kevin P. D'Sa>: No, once you know what – at least we, as a company, are available when the product is coming out. And therefore, to some extent the lower billing that takes place on the Discover, is also a reflection of getting the biggest liquidity of stocks.

<Q - Srinivas Rao>: Okay, okay, okay. And with – on the Bajaj Avenger, which I think have started to do well, is there a potential for the numbers to still have really, say, I don't know 8,000 to 10,000 units per month over a two-year period?

<A - Kevin P. D'Sa>: [indiscernible] (39:10) question. 8,000 to 10,000 numbers – what?**<Q - Srinivas Rao>**: Sorry, but your Bajaj Avenger, your Avenger, which is...**<A - Kevin P. D'Sa>**: [indiscernible] (39:16)**<Q - Srinivas Rao>**: Yeah.**<A - Kevin P. D'Sa>**: Currently, we do 3,000 numbers.**<Q - Srinivas Rao>**: Is that something which can scale up?**<A>**: [indiscernible] (39:24)**<A>**: [indiscernible] (39:25)**<A - Kevin P. D'Sa>**: ...who are there. And there is no reason why this thing, this market share can grow, and I'm very confident that the management of this company will be looking at that as well. But like I mentioned to you, 2014-2015,the launches and the strategies of the company of the products we have not announced officially.**<Q - Srinivas Rao>**: Sure.
<A - Kevin P. D'Sa>: So, you'll have to wait for that, but management is fully aware of the trend of those motorcycles not even this full year whereas the fact that without engineering, without anything, there is always a pull for the Avenger.

<Q - Srinivas Rao>: Yes.

<A - Kevin P. D'Sa>: I'm really sure that we will take some action on this to build up that number as well.

<Q - Srinivas Rao>: Fair enough. This is very helpful, Kevin. Thank you so much.

Operator

Thank you. We have the next question from the line of Sumit Agarwal from ICICI Securities. Please go ahead.

<Q - Sumit Agarwal>: Yeah. Hi, sir. So, I have two questions. One is with the new launches of Discover 100 and 125 in the pipeline, and you mentioned about the Pulsar, how do you see your ad spend? Apparently, you have become more aggressive on the media. Also, this is the first time we are seeing Bajaj becoming more.

Secondly is with the lower volume in the domestic business, how do you see the dealers' profitability getting impacted? How is the dealer profitability now? And what – do you see a risk of a few of your dealers becoming unviable not in near term but, say, in the longer term?

<A - Kevin P. D'Sa>: I'll take your first point in terms of advertisement cost, et cetera there. That's exactly what I had mentioned in the earlier question. But, yes, with the new product launches, creating a brand, et cetera, they'll be more advertisement spend that will be taking place up. Hopefully, the advertisement that we do will translate into results with higher numbers. And therefore, over a longer period, the attainment of the percentage of sales will remain the same. In initial period, the advertisement cost as a percent of the sale may go up because the numbers have to catch up.

So that takes care of it [indiscernible] (41:27). As far as the dealer viability is concerned, it's not auto. I think the issue is there for the entire industry, be it the car industry, the truck industry and the motorcycle industry where the dealers are relatively, I would say, on a sticky wicket, where the margins are concerned. But we as the manufacturer are very sensitive to the dealer's requirement and therefore we make sure that no dealer is overburdened with stocks. We make sure that in case, for example, there is a certain promotion scheme that is required to boost the retails, it's our duty to bear a major part of that loss.

So dealers' viability per se, I had no doubts that it is viable, and this is why the company is not pushing for just multiplication and expansion of the dealers because we prefer to make sure that the dealers and sub-dealers who do not have invest in the infrastructure as what a main dealer has. But what the company does is make sure that any point where we have a reasonable size of addressable population, there is a presence of Bajaj through a sub-dealer.

<Q - Sumit Agarwal>: Good. Do you see – is there any risk that – the cause to support the dealers, the industry might probably increase the dealer margin intent. So for some period of time, say at least for the next year until the volumes picks up, and this is for the industry level?

<A - Kevin P. D'Sa>: I think the industry margin for the dealership differs by and large by 1%, 1.5%. To the best of my knowledge, Honda gives 5%, 5.5%. Yamaha gives closer to 6%, whereas Hero and Bajaj are comfortable giving 4% to 4.5%. And the reason why this 4% to 4.5% versus Honda and Yamaha giving higher is because most of the dealerships they make the money in the sales and aftersales from their workshop. So when you have millions of vehicles on the road, the dealers' cost of operations is covered completely by the [indiscernible] (43:25) expenses and the money that he makes on the sale of vehicles is actually his capital for the future.

The second thing is what we do as a company, we say that it is our duty to create and generate the inquiries, build up the enthusiasm for the vehicles. The dealers always basically convert that inquiry into a sale. So the major part of that activity is

conducted by the company in our case.
<Q - Sumit Agarwal>: Okay. Okay, thanks a lot, sir.

<A - Kevin P. D'Sa>: Thank you.

Operator

Thank you. We have the next question from the line of Vijay Chugh from BNP Paribas. Please go ahead.

<Q - Vijay Chugh>: Kevin, morning.

<A - Kevin P. D'Sa>: Good morning, Vijay.

<Q - Vijay Chugh>: I know you spoke about Africa. But it would be helpful to know about Sri Lanka and how trends there are and what kind of improvement we expect in 2014 actually

<A - Kevin P. D'Sa>: Sri Lanka sales are a reflection of the economy and Sri Lanka is right now in a very, or should I say, bad position where the economy is concerned. And secondly, the relationship between India and Sri Lanka had deteriorated significantly. So whatever I see, actions that are taken by the Sri Lankan government seems to affect Indian industry much more than the others. And when I talk about Indian industry, I'm saying is basically are the two-wheelers, three-wheelers and cars.

So, as far as I see, the potential for Sri Lanka's motor three-wheelers is around 10,000. The potential of motorcycles there is about [ph] north (44:53) of 10,000 to 12,000 numbers per month, with the potential of our exports. But like given the reason of the economy, given the reason by the duty culture, et cetera, what we're seeing is that we're doing about 5,500 three-wheelers and about 5,500 motorcycles per month.

<Q - Vijay Chugh>: I Also, we're operating at almost only at 50% potential actually.

<A - Kevin P. D'Sa>: Absolutely.

<Q - Vijay Chugh>: Okay, okay. All right, that's all I just wanted to have. Thank you.

Operator

Thank you. We have the next question from the line of Akshay Saxena from Credit Suisse. Please go ahead.

<Q - Akshay Saxena>: Yeah. Good morning, Kevin D'sa.

<A - Kevin P. D'Sa>: Good morning.

<Q - Akshay Saxena>: This is Akshay. First question was on the similar size in Egypt, also, are things back to normal? If I think about Egypt, you were sort of also mentioning that it's something that has not yet recovered?

<A - Kevin P. D'Sa>: It has reasonably improved in terms of the fund flows. In terms of the letter of credit, the risk appetite for getting letter of credit has improved. The earlier situation was that when a person had money, the banks, whether Standard Chartered Bank or whether it's HSBC or something, were allergic to having too much country exposure. But that risk appetite of the bank has improved. And therefore, I am finding it much more easier to get a letter of credit confirmed.

And one of the reasons why you're seeing the third quarter numbers going up in similar size compared to the second quarter is that probably Egypt sales improving. Is it back to normal? The answer is no. Has it improved substantially? The answer is yes.

<Q - Akshay Saxena>: Okay. So what would be the key reason that our similar export volumes are still seeing almost a double-digit decline? Is it season cover from...
<A - Kevin P. D'Sa>: Only in Sri Lanka.

<Q - Akshay Saxena>: Only in Sri Lanka, okay. Okay. And the second question was on the Discover side, we've not seen any new launches from the companies you're adding. So what do you think led to this sudden decline in markets during the last six months? Is it just broadly the industry shifting and wanting a different kind of product, which is what you think the 100M motorcycles or what are the reasons for this?

<A - Kevin P. D'Sa>: Like I said, there could be multiple reasons but none of us can pinpoint any name. Some say it is out of multiple models that the company is launching. Some say different reasons so. But my personal view. My personal view, let's say I'm not talking on behalf of the management of the company, my personal view is in a slowdown, in a bit of negative sentiment, customers tend to be sticking to the leader. And that's where I feel that in this environment, for example, but also market share actually gets consolidated. But in the Discover family, in the Discover market share, I think the Spender is getting bigger say. So, it's nothing to do with the Discover. It is basically, even if you look at Honda's [ph] Dream Yuga (47:42) and Honda's Neo, they don't seem to be going anywhere. But the Spender and Passion seem to be holding on and that's my personal view. But it's kind of a stress, [ph] kind of a strain (47:52), people seek comfort in the leader but I could be wrong. This is completely I'm saying, my personal view.

<Q - Akshay Saxena>: No, that's fair. And the three Discover models when you said, [ph] by and large, (48:06) three Discover models would be something that would be contributing almost 90%, 95% of Discover volumes, one would be the 100 M, one would be the new 125. The other one would be the four-gear, is it the 100 cc vehicles?

<A - Kevin P. D'Sa>: That's right.

<Q - Akshay Saxena>: Okay. Thank you.

Operator

Thank you. We have the next question from the line of Kunal Bhatia from Dalal & Broacha. Please go ahead.

<Q - Kunal Bhatia>: Thanks [indiscernible] (48:31) most of my questions are answered. So, just wanted one thing on – you mentioned Q3, our rupee-dollar realization was INR 60.9, how much was it last year?

<A - Kevin P. D'Sa>: Last year it's INR 49.9.

<Q - Kunal Bhatia>: So, then also one more thing. Mr. Bajaj yesterday also mentioned about, as of warning of margins would not benefit from currency advantage going forward. Could you just elaborate on that a bit more?

<A - Kevin P. D'Sa>: No, very frankly, I have not heard what Mr. Bajaj said, so I won't be able to elaborate it. But you can ask me a direct question, I'll give a direct answer.

<Q - Kunal Bhatia>: Okay. Okay. Fine. So, what's your take on that?

<A - Kevin P. D'Sa>: My take on that is like I mentioned is that for the whole of the current year, keeping in mind that we realize INR 55 in the first quarter and [indiscernible] (49:24) 1-9 in the second quarter. My fourth quarter realization will be somewhere near INR 61.2 or INR 61.5.

<Q - Kunal Bhatia>: Okay.

<A - Kevin P. D'Sa>: On a whole-year basis, my realization would be somewhere near about INR 60.7 [indiscernible] (49:33). Our own estimate is given that the rupee is – that I should see a realization of almost INR 62 to INR 63 at least in the next year, which translates to a gain of about INR 480 crores.

<Q - Kunal Bhatia>: Okay. Thanks. I think it's almost done with it.

Operator

Thank you. We have the next question from the line of Mukesh Saraf from Spark Capital. Please go ahead.

<Q - Mukesh Saraf>: Yes. So, thank you for taking my question. So, firstly on the three-wheeler side, if you could just give us some sense on the sole CNG prices increase and how would that lead to your change in product mix? Would diesel volumes increase for you, and would that have an impact on your profitability, or it would make a difference for you?

<A - Kevin P. D'Sa>: Yes, price is basically the choice of the customer that is taking place. So, yes, CNG had a significant advantage in the past because of cost depreciating. And you have a lot of [indiscernible] (50:32) inflation with that. With the CNG prices going away, rising up significantly, the advantage of a CNG relative also to the cost of petrol is then diminished.

<Q - Mukesh Saraf>: Sure.

<A - Kevin P. D'Sa>: So it's only a question of the choice between the customer picking up a CNG or a petrol. My margins between the two remain the same.

<Q - Mukesh Saraf>: Okay. And in terms of capacities as well, it doesn't make a difference?

<A - Kevin P. D'Sa>: That is [indiscernible] (50:53).

<Q - Mukesh Saraf>: Okay. And also secondly, a very general question, if I look at your recent adds on the Discover, I'm seeing that there is a lot more focus on mileage and earlier I guess it was more on performance and now you're basically looking at mileage plus performance or do you think that the slowdown that we have seen in the Discover volumes last, say, six months or so, I mean, tapering off? Is it more because the rural markets are improving more, and hence, mileage-oriented vehicles are doing better and that's why you are also now looking more on a mileage-plus performance kind of strategy?

<A - Kevin P. D'Sa>: I would say that they're looking more at value not just on mileage. One is, of course, mileage has become very relevant in the last one year with tough fuel prices going up to INR 82 per liter. But what we are saying is not just mileage, it is something [indiscernible] (51:42).

<Q - Mukesh Saraf>: Sure.

<A - Kevin P. D'Sa>: So, what we are saying here is the 100cc bikes that give you more mileage, more power, more safety, more features, et cetera, is what we're selling. So, we're trying to communicate why are you compromising only on mileage when I can give you much more at a very nice price, so that's the theme.

<Q - Mukesh Saraf>: So, that is some bit of a change in the way you're projecting the vehicles?

<A - Kevin P. D'Sa>: Very much. Very much.

<Q - Mukesh Saraf>: Okay. Okay.

<A - Kevin P. D'Sa>: But the underlying theme remains that I can do all this because it's a three-valve engine.

<Q - Mukesh Saraf>: Okay, okay. I get it.

<A - Kevin P. D'Sa>: Because anyone can perform as everything, but it has to be saying that why am I promising it is because it's coming with a three-valve engine, which is the first time in the country.

<Q - Mukesh Saraf>: Sure, sure. Thank you, sir. Thank you for that.

Operator

Thank you. We have the next follow-up question from the line of Pramod Kumar from IDFC Securitites. Please go ahead.
<Q - Pramod Kumar>: Yes. Thanks a lot. Thanks again, Kevin. Kevin, you talked about new markets like theVietnam, Malaysia in addition to Brazil. Brazil, I understand there's the flex engine, which you need for ethanolblending. And I think – how would you see that as a hindrance in terms of whether it's going to be a small technicalissue for you, or it will take some serious working on your side in terms of the R&D side?

<A - Kevin P. D'Sa>: No, Pramod, I won't have the answer to this question because I've not got the right answer. I

have not done my homework on this one.**<Q - Pramod Kumar>**: Not a problem. And the other thing was on Malaysia, Vietnam, it's predominantly a [ph]bebek or scubek (53:06) market motorcycles are...

<A - Kevin P. D'Sa>: Which throughout Indonesia was.**<Q - Pramod Kumar>**: Indonesia was. So – and even Indonesia you've seen – the pretty tough market to crack into?**<A - Kevin P. D'Sa>**: By going alone, but with Kawasaki in the Philippines, they're the market leader with a 45%

market share. With Indonesia, as I've mentioned to you, with going in with Kawasaki, we are seeing huge amount oftraction, and therefore the Kawasaki model is what we will use for getting into these markets.**<Q - Pramod Kumar>**: So in a way, you're saying that you won't be looking at the non-motorcycle format there?**<A - Kevin P. D'Sa>**: No.**<Q - Pramod Kumar>**: Well because I was coming to that, because motorcycle..**<A - Kevin P. D'Sa>**: No, no, no. Please, no.**<Q - Pramod Kumar>**: So you won't be looking at [ph] bebek and scubek (53:42)?

<A - Kevin P. D'Sa>: No, no, no.**<Q - Pramod Kumar>**: Okay, because I was just looking at the portfolio of you and Yamaha in Malaysia. They have150cc bikes in their entire motorcycle family and everything else is a [ph] bebek or scubek (53:51) and then of course,one liter plus super bikes. So I was just looking at the market.

<A - Kevin P. D'Sa>: No, no. We are focused on motorcycles.**<Q - Pramod Kumar>**: Motorcycles. Fair enough, fair

enough given. And thanks for a lot. Best of luck.**<A - Kevin P. D'Sa>**: Thank you, Pramod.

Operator

Thank you. We have the next question from the line of Raghu Nandan from Amsec. Please go ahead. **<A - Kevin P. D'Sa>**: Can we restrict ourselves for another three questions, please?

Operator

Sure, sir.

<Q - Raghu Nandan>: Thank you sir for the opportunity. Sir, with reference to domestic two-wheelers, can you throw some light on the demand trends in urban and rural markets? Are you seeing a revival or how do you look at the urban markets as of now?

<A - Kevin P. D'Sa>: As far as we see that urban and rural is not the way we really look at it is more from the point of view of what the vehicle is used for. So we break up the market, whether it's rural or whether it's urban, whether it'd be used for commute or whether it'll be used for sports. So unlike the way you all look at it in terms of rural, urban, we look at it from a usage point of view.

As far as the demand per se is concerned, definitely, the penetration level in Tier 1 and Tier 2 terms is lower than what is there in the cities. And to that extent, there's a greater opportunity of growth in the Tier one – Tier 2 and Tier 3 term in the cities.

<Q - Raghu Nandan>: True, sir. Sir, with preference to RE-60, the Highways Ministry has approved the quadricycle as a new category in December. So, can you help understand what would be the regulatory steps involved before, say, an RE-60 goes to the market?

<A - Kevin P. D'Sa>: One is, you'll have to get one classification given here should now go to the individual states. And it seems [indiscernible] (55:34) to inform the road transport officers as for the classification of the vehicle in terms of which permits are required for this. So, there is a lot of regulatory work now to be done in the states.

<Q - Raghu Nandan>: Okay. And I would like – if we like break up permit and non-permit, how would be the approximate breakup be, Sir?

<A - Kevin P. D'Sa>: I would say that, if I take the permits, I would say that it's about 40% market is permit and the balance 60% which includes the diesel would be non-permits.

<Q - Raghu Nandan>: Okay, okay.

<A - Kevin P. D'Sa>: Again, I'm talking on permits, let me use [indiscernible] (56:07) – for driving a vehicle required permit. But when I'm talking of 40%, I'm talking to 40%, which were number of permits regulated.

<Q - Raghu Nandan>: Okay, okay. I would like one last query. This is with reference to Sri Lanka. Like, does it make sense to set up an assembly in plant at Sri Lanka, sir?

<A - Kevin P. D'Sa>: It does make sense, in so long as at the end of the day, you realize what the duty structure is. So, the cost of manufacturing is always the cheapest in India, there's no doubt about it. Setting up an assembly unit over there when you are – it always depends on the localization laws that are coming in. So, the localization laws require some of welding, machining, sourcing of components over there. Then for that volume of vehicles, it may become unviable.

<Q - Raghu Nandan>: Okay. So, no plans from our company side to set up anything there, sir?

<A - Kevin P. D'Sa>: No, in any case, wherever we talk [indiscernible] (57:02) the dealer who does it. So, there is no investment by Bajaj.

<Q - Raghu Nandan>: I understand sir. Sir, if I may, a last question, how is the dealer inventory, sir, and your...

<A - Kevin P. D'Sa>: [ph] 5/8 (57:14).

<Q - Raghu Nandan>: [ph] 5/8 (57:14), sir. Thank you, sir. That's all from my side. Thank you, sir.

Operator

Thank you. We'll take the next follow-up question from the line of Srinivas Rao from Deutsche Bank. Please go ahead.

<Q - Srinivas Rao>: Hi, Kevin. Just wanted to check with you on two things. One, is there any plan for a subvention or do you see a need for any subvention scheme going forward?

And secondly, do you think a buyback kind of scheme is feasible in two-wheelers like a guaranteed buyback price after a three year period or four or something like that or that's not workable?

<A - Kevin P. D'Sa>: I'll tell you as far as subvention is concerned, a subvention scheme works only when you want topre-pone the sales rather than expand the sales.

<Q - Srinivas Rao>: Okay.**<A - Kevin P. D'Sa>**: So, for example, during the Shradh period, you want to pre-pone and not wait for the day tocome into a festive season. Because in the festive season, you cannot produce those many number of vehicles.

<Q - Srinivas Rao>: Understood.**<A - Kevin P. D'Sa>**: So you want to pre-pone and that's where we will use the subvention schemes.**<Q - Srinivas Rao>**: Okay.**<A - Kevin P. D'Sa>**: That will be in about, say 30 days only for those period of time. So you may sensibly may like to

look at it at December month.**<Q - Srinivas Rao>**: Okay. Okay.**<A - Kevin P. D'Sa>**: But other than the subvention scheme on a permanent basis or in a normal festive season, it's not

the approach that Bajaj takes.**<Q - Srinivas Rao>**: Understood.**<A - Kevin P. D'Sa>**: Secondly, in terms of a buyback thing is concerned, it cannot be done directly by the company

because of so many VAT regulations, et cetera.**<Q - Srinivas Rao>**: Okay.**<A - Kevin P. D'Sa>**: So it will have to be done by a third company where you give some assurance. We do a dealer

network, et cetera. It will be a messy job.**<Q - Srinivas Rao>**: I see. So something which is not, I mean practicable to do. The reason obviously asking the

context that lot of people look at the resale value of a bike as one determinant of purchase decision. So that's the reasonI was asking.**<A - Kevin P. D'Sa>**: No. I have said – that was a valid question, and this is what deliberated also some several years

back, our own company as what happens if you actually buy back, refurbish and sell.**<Q - Srinivas Rao>**: Right.**<A - Kevin P. D'Sa>**: But the issue comes in when you do it in an organized manner, then you'll end up in paying all

these taxes [indiscernible] (59:19) sector can be done easily on a motorcycle.**<Q - Srinivas Rao>**: Okay, okay. Understood. Very helpful. Thank you.

Operator

Thank you. We'll take the next question from the line of Vaishali Jajoo from AEGON Religare Life Insurance. Please go ahead.

<Q - Vaishali Jajoo>: Good morning, everyone. Just one last question, if you could give any trend during the election year since – if you had observed anything in the past?

<A - Kevin P. D'Sa>: Trends, as I see it is – on the two-wheeler segment per se, there is no major impact that one has seen. But if I'd look at past this thing, I think there should be a surge in a bit of sales that we were talking of four-wheeler CVs which is like the Sumos and those type of vehicles, which is to have a bit of an uptick in the sales. That's it. But in the motorcycle segment per se, there should be no result of this election having an impact on sales, positive impact.

<Q - Vaishali Jajoo>: Okay, okay. Thanks. That's all from my side. Thank you.

Operator

Thank you. Participants, that was the last question. I now hand the floor back to Mr. Jinesh Gandhi for closing comments. Thank you, and over to you, sir.

Jinesh Gandhi

Thanks, Sharma. On behalf of Motilal Oswal Securities, I would once again like to thank all of you for joining the call today. Kevin, you have any closing remarks to make?

Kevin P. D'Sa

I just want to thank everybody for their interest, and I hope I've answered your questions. And if there's anything that's unanswered or anything that you'll feel embarrassed to ask on the call, please feel free to contact me anytime. You have my number. I'd be more than happy to address your concerns.

Jinesh Gandhi

Okay, thanks, Kevin. Thanks, all.

Kevin P. D'Sa

Thank you.

Operator

Thank you. Ladies and gentlemen, on behalf of Motilal Oswal Securities, that concludes this conference call. Thank you for joining us. You may now disconnect your lines.