

Q3 2017 Bajaj Auto Ltd Earnings Call

Edited Transcript of Bajaj Auto Ltd earnings conference call or presentation Tuesday, January 31, 2017 at 12:00:00pm GMT

Corporate Participants

* Kevin D'Sa

Bajaj Auto Limited - President Finance, CFO

=====

Conference Call Participants

* Jinesh Gandhi

Motilal Oswal Securities - Analyst

* Ashish Nigam

Axis Capital - Analyst

* Ashutosh Tiwari

Equirus Securities - Analyst

* Govind Chellappa

Jefferies - Analyst

* Hitesh Goel

Kotak Securities - Analyst

* Sonal Gupta

UBS Securities - Analyst

* Binay Singh

Morgan Stanley - Analyst

* Sahil Kedia

Merrill Lynch - Analyst

* Pramod Amthe

CIMB - Analyst

* Trilok Agarwal

Birla Insurance - Analyst

* Pramod Kumar

Goldman Sachs - Analyst

* Aryn Pirani

Deutsche Bank - Analyst

* Raghu Nandan

Quant Capital - Analyst

* Jay kale

Elara Capital - Analyst

* Chirag Shah

Edelweiss - Analyst

* Viraj Kacharia

Securities Investment Management - Analyst

* Abhishek Jain

HDFC Securities - Analyst

* Aditya Jhavar

Investec - Analyst

* Basudeb Banerjee

Antique Finance - Analyst

* Mohit Khanna

Value Research - Analyst

=====

Operator [1]

Ladies and gentlemen, good day and welcome to the Bajaj Auto Q3 FY17 Earnings Conference Call hosted by Motilal Oswal Securities Limited. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes.

(Operator Instructions)

I would now like to hand the conference over to Mr. Jinesh Gandhi from Motilal Oswal Securities. Thank you, and over to you, sir.

Jinesh Gandhi, Motilal Oswal Securities - Analyst [2]

Thank you, Karuna. Good evening, everyone. On behalf of Motilal Oswal Securities, I would like to welcome you all to 3Q FY17 post results conference call of Bajaj Auto. Bajaj Auto is represented by Mr. Kevin D'sa, President Finance and CFO. We would like to thank Kevin for taking time out for the call. As usual, we'll start directly with Q&A session.

=====

=====

Questions and Answers

Operator [1]

So, we're opening the floor for questions?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [2]

That's right.

Operator [3]

Thank you very much. Ladies and gentlemen, we will now begin with the question-and-answer session. (Operator Instructions) Ladies and gentlemen, we will wait for a moment while the question queue assembles, thank you.

Ashish Nigam, Axis Capital.

Ashish Nigam, Axis Capital - Analyst [4]

Hi Kevin, congrats on a strong quarter. First question was on the volume side. So on domestic, how have things been on the ground in Jan and when are we expecting things to pick up or get back to normal?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [5]

You see Ashish, let me put it this way. So, I think this is very important for all of us to look at in totality, and then I can take it forward to explain further.

Ashish Nigam, Axis Capital - Analyst [6]

Sure.

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [7]

In quarter one, industry did INR29,54,000 numbers, a growth of 9%. Bajaj Auto did INR5,49,000, a growth of 13%. In quarter two, industry did INR30,89,000, grew by 17%; Bajaj Auto in quarter two did INR579,000, grew by 23%. So till H1, the industry showed a record growth of 13% and Bajaj showed a growth of 18%.

Now this is a time when you had the good monsoon theme, the pay panel salary coming in, all these things happening. And then October, the industry did INR11,45,000 numbers and we did INR2,13,000, a growth of 5% versus the industry. Therefore, when you are talking of this entire thing, you've seen the industry growing by about 12% in cumulative and we had the good monsoons. We had all this pay panel salary, et cetera, and we are looking forward for a great story.

But what had happened in November and December, the industry had actually fallen by 16% and Bajaj Auto fell by 10%. So in Q3, as against the first-half growth of 13%, in Q3 the sales have gone down by 7% for the industry and 3% for us. Now when you say is it going back to normal, are we talking of a growth that we're talking about, are we going back to a status quo type of situation. So, my own call and belief is in January when the numbers are announced in the next few days, my belief is that the industry will still show a negative in January. And for the whole-year basis, we will be more or less flat. So as of now, cumulative up to December, the industry is about plus 2%. By the end of the year, instead of everybody talking about 5% to 7% growth, you will be seeing a flat story or probably marginally negative.

Now, definitely on the entry-level bikes, whether the CT, Platina, et cetera, one has seen the impact of the fall much more severely than the higher-end bikes of the Pulsar and the V and the Avenger. So my basic call is not just the motorcycles, the entire economy picking up from the demonetization, from this entire story. Earliest, it will be about April or so, when one would go back to life being normal despite the fact that now cash is much more available. So, next two months or so, I would still believe that our two wheeler motorcycle segment will still remain sluggish.

Ashish Nigam, Axis Capital - Analyst [8]

That's helpful. So, also on a related note, if you can just talk about exports? So, while commodity prices have come up, currency seems to be volatile again. So, how should we see exports next quarter and FY18?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [9]

I think exports, the headwinds are going to persist for another three months to six months. The positive, if I may say so, is that the bottom has been reached. But further increase in significant numbers, I would say it's at least three months to four months away. While commodity prices may have hardened a bit, what we are also seeing is a huge amount of uncertainty in the global environment given this -- Trump's statements, et cetera. So there's a lot of volatility, there is a lot of uncertainty that is happening globally. And therefore, for me, if I look at it other than a few markets, three or four markets such as Nepal, Philippines, et cetera, the rest is facing issues, primarily the uncertainty. And therefore, for the next three months for the quarter, I think, I would not see any further improvement in the current set of numbers.

Ashish Nigam, Axis Capital - Analyst [10]

Because our base has gotten pretty low, so I'm just wondering, I mean --

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [11]

I don't talk of base. I'm talking of a run rate of 120,000 numbers per month. So, growth and all that, if I have -- selling 80,000 and the next year if I do 120,000 numbers or 50% growth, that's not important for me. Looking at is when the 120,000 numbers hits 150,000 numbers. That is at least definitely not in the next three months to four months.

Ashish Nigam, Axis Capital - Analyst [12]

And the absolute revenue for exports this quarter, do you have the number?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [13]

Absolute revenue for this quarter is -- I managed to get a benefit of the export realization being improved a bit. So therefore, in terms of exports, we realize between spare parts and vehicles, we did about INR1,935 crores.

Ashish Nigam, Axis Capital - Analyst [14]

INR1,935 crores, okay.

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [15]

INR1,935 crores as against Q3 previous year of INR2,281 crores and as against INR2,109 crores in Q2. In dollar terms, we did \$271 million as against \$285 million that we did in Q2 and \$333 million that we did in Q3 previous year.

Ashish Nigam, Axis Capital - Analyst [16]

Okay, just last question. On your thoughts on these E-rickshaws, I mean we keep hearing different numbers about how much that volume has become. So how do you all see that industry size and is it gaining share from three wheelers or these manual handcarts as they say, how you are all seeing that?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [17]

I think as far as our thoughts are concerned, that the existing set of E-rickshaws that are being plying are really not taking away business from the normal three-wheelers. It's adding on and these are more point-to-point because your capacity is about 15 kilometers to 25 kilometers distance. It is more, I would say, an additional way of transportation not really eating into existing three wheelers. Having said that, I believe going forward, electric three-wheelers will be a very attractive area to get into and Bajaj Auto is working fully in that direction.

Ashish Nigam, Axis Capital - Analyst [18]

Okay, do you have an idea of the industry size, because we don't get that --?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [19]

Because it's not regulated and because it doesn't require the registration, et cetera, figures are just floating around which I cannot confirm or verify, but people are talking of a significant -- I don't have an answer very frankly, because a lot of it is also manufactured by the small-scale medium engineering companies.

Ashish Nigam, Axis Capital - Analyst [20]

That's true, okay. I'll come back in the queue. Thanks a lot.

Operator [21]

Ashutosh Tiwari, Equirus Securities.

Ashutosh Tiwari, Equirus Securities - Analyst [22]

So, we have seen a lot of -- a sharp increase in raw material prices. How do we see that impacting us or will the price increase cover for that increase in Q4?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [23]

Now, there are two parts to the increase that's going to take place significantly in Q4. One is on account of the raw material prices, and secondly, for all vehicles meeting the Bharat IV norms. Now, the Bharat IV norms, as far as our products are concerned, all our products are right now -- by January 15, all our products have been meeting the Bharat IV norms, and therefore, that results in a cost increase between INR600 to INR1,200, depending on the vehicle, maybe the three-wheeler or the motorcycle. Those cost increase have been passed on to the consumer, but the profit element on that has not been passed on.

Ashutosh Tiwari, Equirus Securities - Analyst [24]

Okay.

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [25]

Second is, there is going to be an increase in material costs and it will affect most of the products by at least about INR300 to INR400 for the industry, not necessarily for Bajaj Auto and that's what I anticipate for the quarter four. So my call basically is one should see a

material cost increase as a percentage of net sales happening as you go forward. This is on a steady state basis. But what we are also seeing in our portfolio is higher-end and better-end products taking away markets' higher share of the growth in business. So, if you look at my quarter three that is coming, we sell significantly more Platinas than we sold in the CT 100. Secondly, in quarter four, as against the INR67.7 that are realized into the dollar, I would expect the realization to be in excess of INR68 in this fourth quarter. As a result of all this, my material cost as a percentage will certainly go up, but will not be too damaging as one would expect.

Ashutosh Tiwari, Equirus Securities - Analyst [26]

And also in this quarter, we saw our employee costs which is falling on QonQ basis. I mean, is there any one-off or they are just normal cost?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [27]

You see, if you recollect and I had mentioned to all in my calls, et cetera, and when I did the call in May, when we had set up ourselves a target of 4.5 odd million vehicles, I said we had set up this target with a very clear thing because we internally as a management team, as officers of the Company, believe that that's doable. And therefore, some part of our remuneration was considered as a part of the bonus for that 4.5 million target, which was, if we achieved it, we would have got it; if we didn't achieve it, we would not get it. After the third quarter, it was very clear that that target is not going to be achieved. So the amount of provision that I had made in quarter one and quarter two towards this bonus, has been not provided for in Q3 and the first two quarters has been reversed.

Ashutosh Tiwari, Equirus Securities - Analyst [28]

And how much was the quantum and where it resided?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [29]

It is sitting all in employee cost now.

Ashutosh Tiwari, Equirus Securities - Analyst [30]

How much is the quantum sir?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [31]

That is not important. But that is basically the amount that is the difference, de facto you can estimate it to be that amount.

Ashutosh Tiwari, Equirus Securities - Analyst [32]

And other expenses?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [33]

Other expenses is basically on account of the lower exports that's in the packing and forwarding goes off, and given the fact that's especially in the three-wheelers, sales have come off a bit and the fact in three-wheelers, the industry fell by 35% in November and December, we curtailed a (inaudible) expense over there.

Ashutosh Tiwari, Equirus Securities - Analyst [34]

And sir, lastly on three-wheeler side only, how do we see demand? Will three-wheeler remain more impacted than two-wheelers over the next three months, four months?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [35]

I would say so, because three-wheelers is again, a lot of it gets financed by the user, basically the three-wheeler are non-salaried people. So, for them loans get much more difficult. Secondly, there's an element of cash transactions that take place, not black money, but cash transactions that take place in acquiring a three-wheeler. Thirdly, there is a bit of hand-holding, taking loans that are required. All this will result in the three-wheeler sales for the next two months to three months being subdued.

Operator [36]

Govind Chellappa, Jefferies.

Govind Chellappa, Jefferies - Analyst [37]

Hi Kevin. A few questions, first on the new BS IV norms. There is a confusion whether you can sell BS III beyond March 31. Do you have to stop production on March 31 or do you have to stop sales on March 31?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [38]

As we have interpreted it internally in the Company, the rule is that all vehicles cannot be registered after 1st of April, not production. So vehicles that are sold at the dealership from 1st April have to be BS IV compliant. And this is the reason why we had done all our vehicles, whether it's motorcycles or three wheelers, made it BS compliant in January itself, so all the existing stocks, which are 30-day stocks in the system, which are of the BS III variety, will get liquidated by February, and hence March the stocks that the dealership will have would only be BS IV stocks.

Govind Chellappa, Jefferies - Analyst [39]

Second, ahead of GST, assuming it happens on 1st July, would you consciously try to minimize the inventory you have in the system?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [40]

That is not necessary Govind, because two things are there. I think, there will -- for trading companies, et cetera, there will be a stock or a quantum they will have to keep, for which the credit that they have paid will be taken care of.

Govind Chellappa, Jefferies - Analyst [41]

So you're not worried about delays in --

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [42]

The point is you will have to -- there will be a lot of planning that should take place, because I would like to minimize CST purchases. So that the CST -- the 2% doesn't become a cause. So there are various other things that we're already doing. Say for example, materials that is in transit, I'll have to minimize that stock in transit because the new invoices will have to be GST compliant. So all these things will take place. So, I think we will have a roadmap for that as far as we with the dealers are concerned, there should not be an issue. But from an input point of view, these things have to be worked out and we are well on top of it.

Govind Chellappa, Jefferies - Analyst [43]

Third, Bajaj Finance has significantly increased the share of -- a higher portion of Bajaj vehicles are financed by Bajaj in this quarter. So is that a change in strategy, is that a call that Bajaj Finance has taken independent of what you do? How should we look at it?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [44]

Bajaj Finance would definitely like to ensure that their internal KPA is to increase the penetration of the sales over there, because every product that is financed adds money and profits to them. So they will try and open as many more centers in order to improve the

finance penetration. At the same time, hopefully take away business from competitive financiers.

Govind Chellappa, Jefferies - Analyst [45]

Because no, 46% of your vehicles are financed by them last quarter, at least that's what they mentioned in their call.

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [46]

Yes.

Govind Chellappa, Jefferies - Analyst [47]

What is the total financing proportion now for Bajaj vehicle?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [48]

I would put it at about 55% at the most, because Bajaj Finance is the most active.

Govind Chellappa, Jefferies - Analyst [49]

But clearly the total financing proportion has gone up in third quarter.

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [50]

Very much so, very much. Now again, I would put it like I said, I don't have their numbers, et cetera, the financing proportion in the third quarter would come up because of a lot of overflow of the cases booked for in the Dussehra, Diwali month which was almost ending in the month of September, getting accounted in October.

Govind Chellappa, Jefferies - Analyst [51]

Okay. So, one shouldn't read this as a permanent change in proportion of (inaudible)?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [52]

I would say, that -- for me, I would say that it is more likely that on a steady state basis, they will be somewhere near 40%, all the financing that is taking place.

Govind Chellappa, Jefferies - Analyst [53]

All included?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [54]

All included, excluding CVs, of course.

Operator [55]

Sonal Gupta, UBS Securities.

Sonal Gupta, UBS Securities - Analyst [56]

Hi Kevin, good evening. Thanks for taking my question and congrats on a good set of numbers. Kevin, just if you could tell us, one, on what sort of price increases have we taken from January, if any and anything that we did or do in (inaudible)?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [57]

Between INR500 to a INR1,000 on all our motorcycles as the Platina, and Discover, of course, and the Avengers about a INR1,000 plus, Pulsars, et cetera, which is exactly what was the cost of the increase on account of the Euro IV norms, I mean the Bharat IV norms, and the cost increase that took place in third quarter as well.

Sonal Gupta, UBS Securities - Analyst [58]

Right.

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [59]

Now what is happening in the fourth quarter, that as of now, there is no decisional price increase, but fourth quarter, my estimate for the industry will be an increase in material cost by about INR350 to INR400 for a high-end motorcycle.

Sonal Gupta, UBS Securities - Analyst [60]

Okay, so this is coming because of steel price, aluminum, those --?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [61]

Yes. plastics, tires.

Sonal Gupta, UBS Securities - Analyst [62]

Okay. And any increase on three-wheeler side?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [63]

Three-wheeler side will be more, because it's -- in three-wheeler, steel is the biggest cost driver. And therefore in three-wheelers it may be in the range of about INR1,500 to INR2,000.

Sonal Gupta, UBS Securities - Analyst [64]

Okay and Kevin, could you just give us a split and sales of spare parts for this quarter?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [65]

Spare parts for this quarter -- one second, spare parts for this quarter, just a minute please.

Sonal Gupta, UBS Securities - Analyst [66]

Sure.

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [67]

Spare parts for this quarter, domestic and export, both put together was INR653 crores as against INR740 crores that we did in quarter two. Here again, it is the demonetization because all the retail sales, everything happened in cash, this business got affected the most.

Sonal Gupta, UBS Securities - Analyst [68]

And just could you split the INR653 crores into how much is domestic and export?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [69]

INR470 crores is domestic.

Sonal Gupta, UBS Securities - Analyst [70]

INR470 crores. Lastly Kevin, just to understand, I mean, the ASP improvement is quite strong. So I mean -- and especially given the fact that we had lower three-wheelers in the mix, we've still seen a growth.

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [71]

Two things have happened. One is, of course, the dollar realization that is taking place. And second is a change between CT and the Platina. So if you look at quarter three, Platina we sold over 127,000 numbers and CT we sold just 77,000 numbers; whereas in the previous year, we had sold CT -- previous quarter, on quarter two, we had sold almost 143,000 CTs and 108,000 Platinas. Now the mix change that is taking place with Platina and taking place in the CT; as you know, in the CT, we make EBITDA loss. While in the Platina, we make -- I mean, I would say a low double-digit profit. That change has helped me despite the material cost increase taking place to maintain my margins.

Sonal Gupta, UBS Securities - Analyst [72]

And just lastly on this thing, Kevin, anything on -- because once the Pantnagar exemption will go away from March right, so what sort of impact do you see and what are you looking to do?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [73]

The impact will basically not be so much on the EBITDA, at the EBITDA point. The impact will be more on the tax point -- effective rate of tax. So more to answer Govind's question, in addition to GST, there will have to be action to be done at the Panthnagar plant internally also, because any material that is held in Panthnagar, whether it's finished goods or raw material, that would result in a cost inefficiency, because that's excise paid.

Sonal Gupta, UBS Securities - Analyst [74]

But you don't really see any significant impact from Panthnagar for EBITDA?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [75]

At the EBITDA level, no.

Sonal Gupta, UBS Securities - Analyst [76]

How much of your production comes from Panthnagar?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [77]

Panthnagar would be approximately -- of the domestic part, Panthnagar would be about 25%. But now, say for example, Panthnagar opens up then, the entire Nepal supplies can go from Panthnagar.

Operator [78]

Hitesh Goel, Kotak Securities.

Hitesh Goel, Kotak Securities - Analyst [79]

Kevin, just wanted to understand, see basically like you said, most of the cash crunch is now over, in the sense that we have INR10 lakh crores of currencies already been printed. But we are seeing the maximum impact on two-wheelers. Other segments are actually reviving quite fast and you're saying this will take still some time till April. So in your view, this impact in two-wheelers are mostly cash crunch or there is a major impact on the farmer incomes or stuff, which is delaying the recovery in the market.

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [80]

Hitesh, I'm not an economist and I'm not -- I mean, I'm just saying what I feel. And the logic that I'm trying to say is, here was the economy growing up in all forms and suddenly you get a complete shutdown with 86% of the currency getting out, it takes time for the entire economy to revive in. My motorcycles sales, et cetera, is a lot related to the GDP and the economy growth.

Now whatever cash is available, doesn't necessarily mean that immediately activity and [economic area] starts. So for example, if you look at the construction industry, look at the textile industry, all those things still have to grow up and come in. So where do I cash -- is it the position, does it bring you back to normal? So therefore, for me, I would say that, if you want to get a true sense of what the industry will come in is only in the month of March when you start seeing the [marriage markets] coming in, you'll get into a flavor. I'm not saying that I have no logic, I have nothing else, except it's a gut feel from my side.

Hitesh Goel, Kotak Securities - Analyst [81]

And basically on scooters also, there has not been recovery. So, I mean, I'm surprised that premium motorcycle segment is doing relatively okay, but scooters have not.

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [82]

Again, you see the premium motorcycle is coming by more or less a salaried guy, a higher income person, et cetera. The scooters, et cetera, is today, maybe more of a depreciated thing in terms of cash is coming from a lower income strata. Therefore for example, why motorcycle, car industry is doing very well.

Hitesh Goel, Kotak Securities - Analyst [83]

My final question is on this Seventh Pay Commission, like you said, in our previous con calls and meetings, we've already said it, it will not be a major impact on the two-wheeler sector. So is the -- do you track the number of government employees in your --?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [84]

No, not at all.

Hitesh Goel, Kotak Securities - Analyst [85]

It's not gone up so much in the mix?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [86]

Like I said, I don't track that. But my reference is Seventh Pay Panel Commission and the good monsoon was basically that one is not looking at a 20% decline. But actually, I would say that from a 10% growth, it will become a 20% decline. So, actually the impact is almost 30%. (inaudible) say, for example, in the first half, industry grew by 13%. And now you're seeing in November-December, it's fallen 16%.

Operator [87]

Binay Singh, Morgan Stanley.

Binay Singh, Morgan Stanley - Analyst [88]

Hi, Kevin. Thanks for the opportunity. My two questions actually, firstly on Dominar, any initial feedback, how is the demand going? You've launched it around in 20 cities or so, so how is that playing out?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [89]

It's doing well. It's meeting our -- seeing the reviews that are coming on the social media are very, very positive. We will do approximately about 2,500 this month, that's more because of our production constraint. We have opened the bookings now up to the public. I think the bookings will significantly improve now when there is a more of a touch and feel, when vehicles are available in the showroom. My estimate and my call is -- for me, it's like, I look at it and say that the price point of 150,000 vehicles is a market of almost about 80,000 vehicles over there. There is no reason why one should not anticipate 10% of that business coming to the Dominar.

Binay Singh, Morgan Stanley - Analyst [90]

Okay and any cannibalization that your dealers are talking about from Pulsar or KTM?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [91]

Too early to say, Binay, because right now all people who have actually booked the vehicles have paid an advance of about INR9,000. So whether there is a cannibalization or not, will take place a little later. And [parallelly], as you know, the KTM also has just launched their latest upgrades of the KTM, that is FY17 models. So there is -- in that range there is a lot of excitement coming from Bajaj table. So, there are going to be five KTMs in that segment over there, there's the Dominar over there and also Pulsar appraisal coming in. So I would say that, other things being equal, this segment will grow and our market share in the segment will grow significantly.

Binay Singh, Morgan Stanley - Analyst [92]

And further Kevin, if I look at your subsidiary income which is basically just consol minus standalone, we are seeing that declining by around 13% or so on a YoY basis?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [93]

Yes INR52 crores.

Binay Singh, Morgan Stanley - Analyst [94]

Yeah, it was around INR60 crores last year in December.

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [95]

That is KTM's third quarter versus second quarter.

Binay Singh, Morgan Stanley - Analyst [96]

Okay.

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [97]

Nothing more than that. There is no other thing over there.

Binay Singh, Morgan Stanley - Analyst [98]

Okay, so basically that's leading to it.

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [99]

Yes.

Binay Singh, Morgan Stanley - Analyst [100]

Lastly, do you get any export incentives now from the Government of India?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [101]

The same, the normal drawback of 2%, 2.5% or so.

Binay Singh, Morgan Stanley - Analyst [102]

Okay, nothing more than that?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [103]

Nothing more than that.

Operator [104]

Pramod Amthe, CIMB.

Pramod Amthe, CIMB - Analyst [105]

Hi Kevin. What are the early turnaround indicators you will look at export markets? What to track around?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [106]

I would say that it's only for me, as you know that the major part of the fall while I have entered into new markets, every month we opened new markets. These markets are small, so they start with just 400, 500 numbers a month. So the earliest indicator will be Egypt and Nigeria where things improve over there, because that's where the major fall has taken place. My potential is a 40,000 in Nigeria, I'm currently doing about say 15,000 numbers. So the earliest indicator will be, if Nigeria starts going up then automatically, I would say that Egypt, et cetera, will be the other markets that one can see an improvement. But with this Trump issue coming in, Latin America is in turmoil.

Pramod Amthe, CIMB - Analyst [107]

And for these countries, what indicators, macro indicators you will look at?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [108]

It is primarily going to be oil and political stability.

Pramod Amthe, CIMB - Analyst [109]

Oil seems to be coming back, but --?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [110]

No, it is also the political stability.

Pramod Amthe, CIMB - Analyst [111]

And for three-wheelers, even though on the overall industry basis, there has been a substantial collapse, can you give some color in terms of how are the CT-based performing versus the smaller diesel and larger diesel within the segment, is there is any deviation in -- ?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [112]

I think what has happened is in the first six months, you have seen the -- in CT segment doing pretty well because of the permits. Quarter three has been relatively less permits. Quarter four, there is 10,000 permits which the Delhi government has asked for applications, et cetera. But it normally will spill over into the first quarter of next year. So I think what we see now, in the normal situation if I go historically, the first and second and third quarter are pretty healthy from a permit point of view and in CT.

Fourth quarter is normally weak. But for us, as I go into the next year, what will be the growth drivers, it will be the cargo vehicles. Now in the cargo vehicles, we have come in, the product has been very well accepted, a, from the point of view of carrying capacity, from the point of fuel efficiency, et cetera. So I would say that from a power perspective, that has got a great opportunity for us to grow. In this quarter, we had done 3,000 vehicles. But I think the average likely potential for selling will be almost about 6,000 vehicles per month, per quarter in the segment.

Pramod Amthe, CIMB - Analyst [113]

And MD commented somewhere the Dominar has a potential to go up to a million brand. Can you give a timeline, what's the thought process?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [114]

No, I won't be able to say that.

Operator [115]

Sahil Kedia, Merrill Lynch.

Sahil Kedia, Merrill Lynch - Analyst [116]

Hi Kevin. Kevin, there are two questions. One, when is the Pulsar likely to be launched and also with now Pulsar and Dominar -- upgrade of the Pulsar and Dominar being there, does it also mean that your export mix can be improved substantially over the next, let's say, two, three years?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [117]

So, Pulsar is already in the market under the BS IV, it's already in the market, the new Pulsar, and the Dominar is there. So again, you have correctly said is, as far as the mix that is taking place in the motorcycle segment exports, more and more exports of the Pulsar family is going to Latin America and those markets, and hence the mix and profitability exposure remain the same.

So as we go forward, Dominar will go into the export market in April. Again, it'll be featured more into Latin America countries and that's how it will pan out. For me the number terms -- as far as my margins and exports are concerned, these have remained the same between quarter two and quarter three. This is coming because of the mix change of higher Pulsars. But the absolute profit and the absolute numbers is getting affected primarily because of Nigeria, Egypt and Sri Lanka.

Sahil Kedia, Merrill Lynch - Analyst [118]

Apart from that and now going into FY18, what other major launches or product upgrades we can expect?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [119]

Nothing that I can share with you right now, because one way Dominar is 15 days old, so Pulsar family is a month old, V family is about six months old with V12 just been launched in December. So, relatively we're going into FY18 with all-new fresh products lineup in any case. And then like I mentioned earlier, the KTM with five launches is coming up in January. So, at least for the first six months, we have an entire fresh range of products to leverage.

Operator [120]

Trilok Agarwal, Birla Insurance.

Trilok Agarwal, Birla Insurance - Analyst [121]

Sir, my question has been answered. Thank you very much.

Operator [122]

Pramod Kumar, Goldman Sachs.

Pramod Kumar, Goldman Sachs - Analyst [123]

Yes, thanks a lot for the opportunity. Good evening, Kevin. Kevin my first question pertains to export markets because, of course, the macro stuff -- but generally, we have seen since the slump in the export market five quarters back, our market share basically which is the way we look at is the exports from Indian two-wheeler manufacturers and how is the monthly share moving, there I think we have seen market shares slipping from close to 60% to closer to 50% now. Just trying to understand -- and at the same time, we have talked about opening up new markets as well. But just want to understand how is the competition intensity from the domestic players into these export markets, because surprisingly --?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [124]

When you say 60% to 50%, you are talking of exports out of India or are you talking about country-wise exports?

Pramod Kumar, Goldman Sachs - Analyst [125]

No, we don't have the country-wise data Kevin, we are handicapped there --?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [126]

As far as country-wise is concerned, there will be, for example in Nigeria where my market share has gone up significantly, so I'll just take November and December as a base. We actually retailed 23,000 numbers, whereas the nearest competitor and I'm talking of including TVS, sold less than 1,000. That is therefore, as far as I can see it in individual markets, my market share by and large is intact. Now when you look at 60% coming down to 50% in terms of market share, it is so sensitive that, for example, if a shipment gets delayed by a two quarter -- a month or so, in that month if I lose 5,000 numbers and someone else puts in 5,000 numbers, it makes a difference. So I would not like to look at it quarter-on-quarter.

Pramod Kumar, Goldman Sachs - Analyst [127]

I am talking about five-quarter trend Kevin. It's pretty consistent.

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [128]

That I would say is credit to the other players as well. It doesn't make a reflection of Bajaj and the market share falling down is good for the country.

Pramod Kumar, Goldman Sachs - Analyst [129]

No, which I agree. That's what I want to understand, which other markets with these players are tapping given the fact that you're saying your market shares are --?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [130]

It's the same player -- places where we go.

Pramod Kumar, Goldman Sachs - Analyst [131]

Then your market share going up in the end market --?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [132]

Also the Chinese is also there now. I'm not only competing with Hero and TVS in the single market. There are other players over there, including the Chinese. Now for example in Nigeria, the Chinese have been wiped off, in Africa the Chinese are losing in. So whenever, if at all say a competition be it Hero, be it TVS, is gaining market share, it's not necessarily at Bajaj Auto's cost, it could be the other party as well, no.

Pramod Kumar, Goldman Sachs - Analyst [133]

And the surprising bit of it is like Honda which has picked up market share quite a lot, they have gone like 5 percentage point, 6 percentage point increase from their export share, from India. Again the way I'm looking at, even Yamaha has picked up. So I was just wondering, has the competition --?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [134]

Are you talking of motorcycles and three-wheelers or motorcycles and two-wheelers or only motorcycles?

Pramod Kumar, Goldman Sachs - Analyst [135]

I'm looking at -- actually you can look at it both ways, because --

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [136]

No, give me a (inaudible). When you're saying 60% and 50%, is it motorcycles and scooters or is it only motorcycles?

Pramod Kumar, Goldman Sachs - Analyst [137]

I can look at motorcycle, the drop is again --

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [138]

Then I don't think the figure will right, because if we're talking of Honda, it is scooter going to Sri Lanka, if it is Hero, it's scooter going to Sri Lanka.

Pramod Kumar, Goldman Sachs - Analyst [139]

Yes, but motorcycle also -- we've gone from 68% to 60%, I'm looking at both the categories, actually because export with scooters --

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [140]

The answer remains the same, except we need to fine-tune it. For motorcycles and scooters, without it -- so, if I'm not exporting scooters then someone else is making scooters, the fall shows much more drastic right?

Pramod Kumar, Goldman Sachs - Analyst [141]

Yes and that's what. Your motorcycle market is also following the same trend, that what's I didn't want to get into the categories per se. But, broadly --

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [142]

The answer remains same, Pramod.

Pramod Kumar, Goldman Sachs - Analyst [143]

So, there is no threat of a competition increasing from the Japanese brand or the Indian brand, basically the non-Chinese competition kind of going up?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [144]

It will always be a competition, you cannot -- for me, competition is competition, whether it's coming from the Chinese or whether it's coming from the TVS, for me, competition is competition. There is no doubt about that, no.

Pramod Kumar, Goldman Sachs - Analyst [145]

So can that be a growth center in going forward, even when exports come back, is what I'm trying to understand as in --?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [146]

100%, I'm very, very confident of that. Take for example -- let's say for example, you take Nigeria as an example. Which of the distributors are going to be there, still there in the business for the competition, whereas my entire dealer network is there, because they still sell 20,000 numbers. So there is also a viability situation. So when the market bounces back, 100% of benefit will first come to the Company. Now let's take Egypt as an example. In Egypt, when there was this entire turmoil, et cetera, Bajaj Auto, its dealers and network, et cetera, were there servicing vehicles. When situation in the market improved a bit, Bajaj Auto got the benefit. That does not prevent any other domestic player from also expanding its presence over there.

Pramod Kumar, Goldman Sachs - Analyst [147]

And Kevin on the FY17 volume, you said 4.5 million was the initial target. (multiple speakers) And what's the target now, revised target for FY17, we just have one quarter --

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [148]

After 10 months, you automatically will look at the figures if you see tomorrow's numbers. With the market being there, I don't think it's going to be excess of 3.8 million.

Pramod Kumar, Goldman Sachs - Analyst [149]

3.8 million, including-- so even exports, we are not looking at any, as you highlighted during earlier part of the call, but Ravikumar on the television today said that you are looking at a marginal increase quarter-on-quarter in Q4. So even three-wheelers is not exact -- the export is also not going to be any of major comfort at least in the near term?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [150]

Not at all, I mean, near-term I said -- I've not even said three months, it's gone beyond three months, they are four to five months.

Pramod Kumar, Goldman Sachs - Analyst [151]

Four to five months, and in that light, Kevin, just any rethink on scooters, because there have been a lot of rumors that Chetak, there have been parts which have been caught on the social media or on the forum, so is it like still outright denial or there's still option which is still open?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [152]

Your answer will come in the social media only, nothing from me. (multiple speakers) The answer is outright denial.

Pramod Kumar, Goldman Sachs - Analyst [153]

Outright denial?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [154]

Yes.

Pramod Kumar, Goldman Sachs - Analyst [155]

But then, one can deny for competitive reason, but are you going beyond that and saying there is enough opportunity outside of scooters for us to be focused on and not get distracted by scooters at this point of time?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [156]

That is the statement that the Company has made, the MD has made and I repeat it and hold that view.

Pramod Kumar, Goldman Sachs - Analyst [157]

And on the cargo three-wheelers, Kevin, will that -- in terms of the margin profitability, given the fact that nothing much changes except for the engine, and we do have a history of diesel engines. So it would be right to assume that margin profitability between the gasoline and the diesel shouldn't be materially different?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [158]

The gasoline is something that is where we have our strength, and diesel is where we have come in later. But definitely, the diesel profitability is lower than the gasoline profitability. But both are over the 20% mark.

Pramod Kumar, Goldman Sachs - Analyst [159]

That is there. That's absolutely there and for last question on cash, Kevin, I think it's got to do with seasonality, but again, we have seen -- despite exports not being that great, we have seen sequentially cash levels falling meaningfully adjusted for the cash flows what were generated this quarter. So if you can just help us understand that because --

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [160]

Every quarter we are in a position to get INR275 crores of VAT refund. And the VAT refund, because of the government's financial constraint, we did not get it. So that much working capital got stuck, one. Secondly, we paid an advance tax of INR579 crores in this quarter where to make sure that I pay 75% of the amount as against about INR300 crores that we paid in quarter two, that's the second reason.

The third reason is, as on 30th of September, the creditors that were paying off about INR300 crores was paid in the first week of October. While that cash worth of INR300 crores were there in September. At this time, in the month of -- 31st December, we paid the entire dues to the vendor before 31st December because we were shut for three days. That accounts for another INR300 crores. Hopefully as we get payment on the 45 days from the vendors, when my production comes down, that much working capital I lose out. So that's the reason for the fall of about INR900 crores from September 30 cash balance to today's cash balance.

Pramod Kumar, Goldman Sachs - Analyst [161]

So, the VAT refund ratio is --

Operator [162]

Mr. Pramod Kumar, may we request you to please rejoin the queue for your follow-up questions.

Pramod Kumar, Goldman Sachs - Analyst [163]

Fine thanks a lot.

Operator [164]

Amyr Pirani, Deutsche Bank.

Amyn Pirani, Deutsche Bank - Analyst [165]

Yes, good evening sir. Thanks for the opportunity. Sir, I just want to revisit the Pantnagar question. Since there is an excise duty benefit, I just wanted to understand from you, why is there no impact on EBITDA?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [166]

I won't say there is no impact. There is no material impact, shall I put it, because what happens is, when I'm acquiring materials from -- for my input, that is excise paid.

Amyn Pirani, Deutsche Bank - Analyst [167]

Okay.

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [168]

So I cannot take credit for that.

Amyn Pirani, Deutsche Bank - Analyst [169]

Okay, unless the vendor is also in Pantnagar, you're saying?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [170]

Correct, so to that extent, that benefit is not much. But the benefit really comes in the -- if you consider both the profits, one profit it attracts 30% tax, the other profit is 70% is tax, it gives you the benefit.

Aryn Pirani, Deutsche Bank - Analyst [171]

Right.

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [172]

That's the main reason. Let me say, I am not saying it doesn't make EBITDA difference, it's marginal.

Aryn Pirani, Deutsche Bank - Analyst [173]

Understood. And sir, you also mentioned that the fourth quarter increase in material cost could be around INR300 to INR400.

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [174]

For the industry?

Aryn Pirani, Deutsche Bank - Analyst [175]

For the industry, yes. Could you broadly quantify what it would have been in 3Q for the industry?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [176]

I wouldn't like to say that, because it would be by and large about INR200 or so. It all depends on who has negotiated at what stage. But again, like I put it, this is the INR300 to

INR400 that we're talking about is without the Company taking any value engineering and value addition steps.

Amyr Pirani, Deutsche Bank - Analyst [177]

Fair enough.

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [178]

There will be a lot of cost cutting measures, it's a continuous process. So the net impact to any other company will not be the same amount.

Amyr Pirani, Deutsche Bank - Analyst [179]

Understood. But generally you are seeing that the trend going forward also, could be upward for commodities?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [180]

It is upward definitely in Q4. Then it all depends on what this budget is all about. It all depends on what the international market is. It will depend on where the rupee stands. And therefore, we will decide how much of the steel price and the other price is coming into play.

Amyr Pirani, Deutsche Bank - Analyst [181]

And sir, just one book-keeping question. The other operating income was slightly lower this quarter, any one-off or just, I mean, just seasonal impact?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [182]

Other operating income as in, you are referring to which figure?

Amyn Pirani, Deutsche Bank - Analyst [183]

The SEBI reported number, which is INR91 crores, which was like more than INR100 crores for the past few quarters, something like that.

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [184]

And I don't see the --- the SEBI format is what has gone under the stock exchange. Look at the stock exchange, do you have the stock exchange figure?

Amyn Pirani, Deutsche Bank - Analyst [185]

Yes.

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [186]

With the stock exchange figure, other income was shown as INR319 crores.

Amyn Pirani, Deutsche Bank - Analyst [187]

Yes, I am talking about the other operating income.

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [188]

Other operating income from [105 to 91]?

Aryn Pirani, Deutsche Bank - Analyst [189]

Yes.

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [190]

That's primarily because of the DBK coming off, because exports are down.

Operator [191]

Jay Kale, Elara Capital.

Jay kale, Elara Capital - Analyst [192]

My questions have been answered. Thank you.

Operator [193]

Raghu Nandan, Quant Capital.

Raghu Nandan, Quant Capital - Analyst [194]

On three-wheelers, what is the price hike required for the BS IV transition?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [195]

It will steep and therefore it is not possible to take up the price increase at one go. So, therefore, it will have to be done in two tranches, because, like I mentioned, A, there is a BS IV impact and there is material cost impact as well. So we need to do it in two tranches. We have completed the first tranche, but fortunately or unfortunately I don't know how to put it, Piaggio, Mahindras, et cetera has not launched the BS IV version from their side. So if I do the price increase of all, both put together, then my vehicle will be outpriced completely from the market and therefore, we have done it only in one tranche which right now takes care of the BS IV impact, but the material impact is yet to be recovered.

Raghu Nandan, Quant Capital - Analyst [196]

Understood. Sir, like, can you quantify it for --

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [197]

No. I won't do that.

Raghu Nandan, Quant Capital - Analyst [198]

In exports, one focus area was entering new markets last few years. Any notable achievements --

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [199]

Like every month, say for example, Turkey has now stabilized and doing very well; this month we have all gone into Poland, we've gone into Czechoslovakia, but like I also mentioned earlier, these are initial CT markets where you may do about 200 or 300 numbers a month before it really becomes meaningful. None of these steps are in a position to take care of the hit of about 40,000 vehicles that we have lost in Nigeria, Egypt and Sri Lanka.

Operator [200]

Chirag Shah, Edelweiss.

Chirag Shah, Edelweiss - Analyst [201]

Thanks for the opportunity and congrats on a good set of numbers Kevin. Kevin, two questions, one on Dominar, you indicated there are some production bottlenecks.

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [202]

(multiple speakers) as you ramp it up. So this month production schedule, when you have the components and all that, it was about 2,500, next month is 4,000. So you'll see 2,500 whatever produced this month being sold. Next month, we should be selling 4,000. And then the production ramp-up will take place. So whatever the capacity is required will be ready by about April or so, when you will be actually knowing about the domestic capacity in place and the next post will open up.

Chirag Shah, Edelweiss - Analyst [203]

Fair point. So it's more on the ramp-up side rather than -- okay. Second thing is on your margins, if you look at spare parts being lower, three wheelers being lower, despite that you have been able to and volumes being lower sequentially, the negative operating leverage impact, you have been able to hold on to the margins.

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [204]

This is again a part of our entire strategy of having a variable power structure. So, when you have a variable power structure, yes the underutilization of capacity, et cetera, really doesn't affect the EBITDA levels. If you look at it, I've got about INR12 crores, if I'm talking now

sequentially, between 30/09 and 31/12, you will have seen that in the labor I've got about INR15 crores coming in. In the other expenses, I've got about INR48 crores coming in. On exchange rate I've got INR17 crores. So what we are in a position to do is, curtail certain expenses, when we are seeing three wheelers going down, when we are seeing there is no point in wasting money on incremental conversion, we curtail those expenses, and therefore, we now have been able to maintain the margins.

Chirag Shah, Edelweiss - Analyst [205]

So when the volume ramp up happens, some of these expenses will come back, right? So, that's the right way of understanding.

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [206]

Some of these expenses will certainly come back because of the various structures. So for example, when I want to do something much more in the V family or when I want to do much more in the Dominar family, and I believe the market is right, yes, I will spend a little lot more over there in order to build up on the volumes.

Chirag Shah, Edelweiss - Analyst [207]

And second question kind of on a slightly strategic one, if I look at last five years, our margins, they have been in the range of around 20%, 20%-21% range, broadly speaking. Is there a -- and our mix has moved, three-wheelers are going up, down, Platina going up, down, Pulsar going -- so mix has been varying significantly, exports being up and down. Is there a thought process internally that we need to gap our margin profile in a particular band, and hence, we may not be --?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [208]

(multiple speakers) I have explained time and again it is each product has to give us a desired margin.

Chirag Shah, Edelweiss - Analyst [209]

Yes.

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [210]

20%, 21%, 22% is the result. Now when I am competing on CT and the Platina, we will never price a vehicle to give us double-digit margin, because it's just not possible. But when it comes to the Pulsar, which is a premium product, when I am the market leader, my benchmark target is 20%.

Same way, when I am in the petrol vehicle as the three wheelers, someone asked a question earlier, I am the leader, I have 90% of market share, I will definitely aspire to have a margin that's higher than the competition. But when it comes to the diesel segment, where I've been a follower, where we have the Piaggio and Mahindras all well entrenched, I cannot expect to say that I need 27% and hence price the product accordingly. So for us, the margin is a result, but each product, each product platform et cetera has got a internal benchmark number.

Chirag Shah, Edelweiss - Analyst [211]

On the raw material cost, just a clarification. So you said that on the top-end, there is roughly INR350, INR400 increase from industry perspective. I presume similar number would be there for Bajaj Auto give or take, a few percentage points here and there. So when would you take a call to pass on that cost increase?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [212]

I don't know, I don't know. It all depends on lot of action to be done to the competition and everything is there, because we don't look at business quarter-wise.

Chirag Shah, Edelweiss - Analyst [213]

Yes, fair point.

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [214]

I will say for example, let us put it this way. The industry is down, I don't know whether how many of Hero products have actually become Euro IV -- BS IV, I don't know. But my Platina today is already becoming artificially higher than a competition product, because mine is BS IV and other project is not BS IV. The customer is not bothered about BS IV or BS III. So I need to wait and watch to ensure what is competition doing, so when BS IV gets in across the country, then we are in a position to really benchmark. So on 1st of April, all of us will be on the same level playing field in terms of technical specs.

Chirag Shah, Edelweiss - Analyst [215]

And as of date, there will be not be spillover effect of raw material costs for next quarter right? So, whatever pressures we have, we are seeing till December or till early January, would -- are there -- in your raw material, what we are looking at in Q4 also is already there, there is no negotiated spillover?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [216]

No, my steel price increases, my raw material price increases, I'd negotiate it quarter wise. So what has already come in the material cost for this quarter, in addition to this, there will be a price increase that comes in into the first from 1st of January.

Chirag Shah, Edelweiss - Analyst [217]

And over and above that, there is no major spillover as of date from April perspective?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [218]

No chance.

Operator [219]

Viraj Kacharia, Securities Investment Management.

Viraj Kacharia, Securities Investment Management - Analyst [220]

Thank you for the opportunity and congratulations on a good set of numbers. Just had three questions. First is, as one of previous participant highlighted, if you look at our export volume only from motorcycles for the first nine months and if you compare it with a player in the industry, you've seen a sharp de-growth. Now most of these players operate in the same market as we do for the motorcycles. The de-growth has been led by -- more to do with the volumes, our performance in the [125 to 150 and 150 to 200] CC where the de-growth is much sharper than others. So if you could just provide -- where are we losing out on, in terms of incremental growth, we have more probably, market share may be intact, but in terms of incremental opportunity in those markets where we could have captured some of the competition is taking away in hand. So if you can just provide some color on that?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [221]

No, like I said, I don't have data which you are having this advantage of looking at it. But common sense says that, if I am, say for example, selling 40,000 vehicles in Nigeria traditionally and the market collapses and I come down to 23,000, whereas anyone else was not supplying to Nigeria supplies 1,000 or 2,000 numbers to Nigeria, of course, it will show a distortion in the numbers.

Viraj Kacharia, Securities Investment Management - Analyst [222]

So basically, when we talk about Nigeria, it's typically the boxes that get sold --?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [223]

CT is there, Platina is there et cetera. Now the rest of the markets, for example, whether it's Columbia, Peru, Guatemala, et cetera, we are selling the Pulsars and the 125z. So, there the competition, is it Honda, Yamaha, Suzuki, not so much the Chinese and yes, Hero has gone in over there. TVS is, I'm not too sure whether they are there, but Hero has gone in over there. Now all you got to see is, what is the total number of competition in numbers that have taken place from Hero's exports and TVS' exports and Honda's exports. That's the reality.

Viraj Kacharia, Securities Investment Management - Analyst [224]

So, basically the reason I was saying is, because when you talk about the Boxers or CTs or Platina, these are typically up to 110cc products.

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [225]

Correct.

Viraj Kacharia, Securities Investment Management - Analyst [226]

And the fall which we have seen, volume loss, it's more to do with the 125cc to 150cc and 150cc to 200cc in relation to the competition. So that's why, just wanted to get a sense because as you rightly said, in markets like Nigeria, probably the whole industry is getting impacted and markets was intact. But in products which we have relatively stronger, this is where we've kind of --?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [227]

Certainly sir, certainly for example, Hero has opened our entire plant and invested in Colombia, they will certainly get some numbers. I am not questioning, doubting that at all.

Viraj Kacharia, Securities Investment Management - Analyst [228]

Okay and second question was just more of a clarification. You talked about taking some of the cost increase related to emission and raw material pertaining to Q3. And you highlighted the recovery will be more of a gradual slow pace for two-wheelers. Is it that the trend we had seen broadly in the industry in terms of a more casual and more slow approaching because of price hikes because of everyone going for market share and profitability, I mean at least in the very short term?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [229]

I would believe so. So for example, if you look at any of the newspaper today, you will see whether it's competition for Hero, whether it's Honda, everybody is offering INR1500 off. Bajaj is not doing that. Two things may happen and I don't know reason is -- like one reason could be, I am not even making this statement, but it could be if you are talking in terms of Bharat IV norms being done for registration of vehicles, it requires competition to remove all the vehicle in the dealership stop.

If the rule which as interpreted by us is that no vehicles that are there of the BS-III can be registered at the 1st of April, it means the entire inventory at the system has to be liquidated by 31st of March. Now one way could V2 have a very accelerated elimination by offering discounts and freebies? But I can't speak for competition. So, from our side, there is no freebies offered, of insurance offers, et cetera. There are no freebies. In fact, like I said, we have increased the prices, because our vehicles are now BS-IV complaint.

Viraj Kacharia, Securities Investment Management - Analyst [230]

Another two questions, one is on the Pulsar, so you said the updates which we're planning to launch are already in the marketplace and there is no further upgrade on new refreshers in terms NS series planned in the near future?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [231]

Like I said, for the next six months, there is nothing I can say new that's going to come out, because all my vehicles that are now just about a month old.

Viraj Kacharia, Securities Investment Management - Analyst [232]

And anything on the V12, what kind of volumes we're are looking at, because you talked about Dominar, but they have given the kind of --?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [233]

V12 and V15, both put together, hopefully in a steady market, we should be doing somewhere near about 35,000 to 40,000 number a month. And that when I'm seeing in a normal market, I'm hoping it will be March and April.

Viraj Kacharia, Securities Investment Management - Analyst [234]

So is the product Pan India or ?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [235]

Pan India, that closed in December first week.

Operator [236]

Mohit Khanna, Value Research.

Mohit Khanna, Value Research - Analyst [237]

Good evening Kevin and thanks for taking my question. I just wanted to know, what is exactly is your sweet spot? You have Avengers from the entry-level going up to Dominar.

What do you think is the sweet spot in terms of margins and volumes that gets it on most numbers and where do you see yourself in five years down the line?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [238]

Let's concentrate on the results here.

Mohit Khanna, Value Research - Analyst [239]

So in terms of results, most of questions have actually been answered, wherein one thing that I could see was the other income, which was slightly increased. So any information for that one?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [240]

When you are talking about increase, you are talking about which matter, because sequentially from INR342 crores, it has come down to INR319 crores.

Mohit Khanna, Value Research - Analyst [241]

Year-over-year.

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [242]

Now, when you are about INR242 crores there in the stock exchange where it is very clearly highlighted that the investment income, so INR188 crores has gone up to INR241 crores, this is purely upon the FMP revaluation as per Ind-AS.

Operator [243]

Abhishek Jain, HDFC Securities.

Abhishek Jain, HDFC Securities - Analyst [244]

Thanks for taking my question and congrats for the good set of numbers. Sir, how was the rural and urban (inaudible) nine month FY17 and how the trend will change in the coming quarters?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [245]

We don't track rural, urban et cetera. We've never tracked it and it would be very awkward for me to give an answer to this one.

Abhishek Jain, HDFC Securities - Analyst [246]

So can you share the geography mix for the nine month FY17?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [247]

No, not at all.

Operator [248]

Aditya Jhawar, Investec.

Aditya Jhawar, Investec - Analyst [249]

Hi Kevin, thanks for the opportunity. In the light of the export headwind that we are seeing, have you accelerated the plans of entering into newer geographies, specifically, what are the plans for entering a big market like Brazil?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [250]

So, new geographies, we're definitely entering but these are all smaller consuming markets. So we have 12 new countries that are being scheduled to launch between next three months. But like I said, these are small countries where my potential will be about 500 to a 1000 vehicles at the most to begin with. The big market as you correctly said is Brazil, which as of now it's not -- there are no immediate plans that I can share with you in terms of the timing.

Aditya Jhawar, Investec - Analyst [251]

Yes, but any technical constraint that we have in terms of fuel blending?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [252]

Like I said, no comment because selling has also a lot to do with positioning of the vehicle, the brand and with right product to go in over there. So, at present 2017, 2018, I have nothing to share with you on Brazil.

Operator [253]

Basudeb Banerjee, Antique Finance.

Basudeb Banerjee, Antique Finance - Analyst [254]

Yes, congrats sir for a decent set of numbers. Couple of questions. One, as you said that already, there was an element of INR200 per unit broadly in the impact of inflation of raw mat this quarter. And if one sees, your gross margin sequentially is up almost 60 basis points. So that combinedly means around 90 basis points of gross margin improvement, where do you --?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [255]

My gross margin has actually come up from 22.3% it has come down to 22%.

Basudeb Banerjee, Antique Finance - Analyst [256]

So, RM to sales --?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [257]

RM to sales, 66.4% has come down to -- has come down to 65.8%.

Basudeb Banerjee, Antique Finance - Analyst [258]

66.4% is down to 65.8%?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [259]

Correct, which I explained to you as primarily on account of a INR17 crores coming in on account of exchange rate difference and the mix between the CT and the Platina. CT as you know is we make an EBITDA loss, primarily on account of the material cost to the sales ratio. But at the Platina, we make mid-single digit margin, so that change has benefitted me.

Basudeb Banerjee, Antique Finance - Analyst [260]

On that account only sir, out of this, how much can be attributable to this huge delta in your Platina mix this quarter, because one can see CT 100 mix has come down from 25% to 17%?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [261]

Correct, I think a strong line will continue. This mix by and large will remain.

Basudeb Banerjee, Antique Finance - Analyst [262]

Okay. So one should not expect the reversal in the higher Platina mix in Q4 also?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [263]

No, one should not, because this is where the stability has been reached and this is the way we go forward.

Basudeb Banerjee, Antique Finance - Analyst [264]

And sir, any reason then why, if I see your monthly model-wise volume, the CT 100 volume has fallen substantially, so demonetization effect there for both CT 100 and Platina? So, why is --?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [265]

Correct, Platina has a lower-end starter society, be it rural or urban India.

Basudeb Banerjee, Antique Finance - Analyst [266]

And sir, any update on Avenger, monthly wholesale volume of Avenger has also got hits significantly from the levels of 20 odd 1000, whereas comparatively say Royal Enfield, the monthly wholesales have seen no impact as such?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [267]

Avenger is stabilized at about 50,000 a quarter now.

Basudeb Banerjee, Antique Finance - Analyst [268]

So one should look at 50,000 odd a quarter?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [269]

50,000.

Basudeb Banerjee, Antique Finance - Analyst [270]

So broadly these last couple of months, volume should improve drastically you mean?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [271]

While you say that, because I'm saying that -- I'm saying 50,000 a quarter. So, there's almost about 16,000 numbers a month.

Basudeb Banerjee, Antique Finance - Analyst [272]

So number seems like in December, Avenger volume was close to [8.5] (multiple speaker),
November it was around 10,000.

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [273]

(multiple speakers)

Basudeb Banerjee, Antique Finance - Analyst [274]

Yes, so that's what I am saying, the numbers would improve --

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [275]

Everything being back to normal. So, I'm saying, about March or so, things are normal once
you see the Avenger doing something like 50,000 a quarter.

Basudeb Banerjee, Antique Finance - Analyst [276]

So basically Dominar from being zero, that will come into the numbers. Avenger recovery
should be there and a higher mix of Platina should continue.

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [277]

Don't forget the V.

Basudeb Banerjee, Antique Finance - Analyst [278]

V had a slight incremental positive impact of currency, as you said?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [279]

On the V12. V12 should give me the number, V12 should also add to my absolute numbers.

Basudeb Banerjee, Antique Finance - Analyst [280]

And next question sir, if I see for last eight quarters, your staff, reported staff expense is broadly around the INR2,400 crore band itself, no change per se. So despite volumes not going anywhere, there should be some inflationary cost of the same stuff, so whether you have reduced your staff count significantly or how are you managing that if you can highlight that?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [281]

As far as the staff costs are concerned, it was approximately about INR239 crores in a like-to-like basis in Q3, has gone up to INR242 crores and this is primarily because the Company gives an increment of about 10%. So, number of employees going up, as a reduction is not taking place.

Basudeb Banerjee, Antique Finance - Analyst [282]

In last 10 quarters broadly, it is around that INR240 crore broadly ballpark plus, minus somewhere. So, it hasn't gone anywhere in last 10 quarters?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [283]

That is also what happens is if you are looking at it from the last few quarters, it is on account of the gratuity evaluation the Ind-AS change that is taking place. So you need to compare Ind-AS vs. Ind-AS.

Basudeb Banerjee, Antique Finance - Analyst [284]

So benefit of reducing interest rates have also come into this number?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [285]

So when you're taking of Ind-AS, so therefore I would say that, you look at the Ind-AS figures, which you do not have for 2014, 2015, but you have for 2015, 2016. Ind-AS figures for 2015, 2016, INR239 crores was labor cost, so we've gone up to INR242 crores. If you add a 10% increase to all persons including the DA et cetera, we come very much to this figure INR242 crores. But there has not been an increase in staff so now there has been a reduction. So net-net numbers remain somewhere in the INR9,500 crores band. So the increase in staff cost comes in purely on account of inflation and 10% increase to salaries and workmen.

Basudeb Banerjee, Antique Finance - Analyst [286]

Sir, one small question. As you said, CT 100 is very much close to being EBITDA neutral? Then why you are selling it per se?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [287]

It was giving a lot of contribution in one case, so when I am talking of EBITDA neutral, I am talking of fully loaded. Secondly it has my dealers rotate their funds and have utilization over there. Also, it helps my vendors having a full -- a reasonably good utilization of debt capacity.

Basudeb Banerjee, Antique Finance - Analyst [288]

So, conceptually using the same capacity in case you come up with a better product where it can be a better margin. So that kind of potential is there theoretically speaking?

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [289]

Like I said, I have the capacity, so the first step would definitely be to increase V production sales numbers. KTM Platina going up is great for me, because I have two things. One is we have to have absolute numbers, absolute topline growth and then EBITDA is also going to come in.

Operator [290]

Thank you. Ladies and gentlemen, this was the last question for today. I would now like to hand over the floor to Mr. Jinesh Gandhi for his closing comments. Over to you, sir.

Jinesh Gandhi, Motilal Oswal Securities - Analyst [291]

Thanks everyone for taking time off for the call. Thanks Kevin for taking time off this call.

Kevin D'Sa, Bajaj Auto Limited - President Finance, CFO [292]

Pleasure Jinesh. Thank you for hosting this. Thank you very much.

Operator [293]

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