

Bajaj Auto

Q1FY11 Post Result Conference Call Transcript

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Moderator - Rochelle

Ladies and gentlemen good day and welcome to the Q1 FY11 Post Results Conference Call hosted for Bajaj Auto hosted by Prabhudas Lilladher. As a reminder all participants' lines will be in the listen only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call please signal an operator by entering "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. Joining us on the call today from Bajaj Auto is Mr. Kevin Dsa, President (Finance). We also have with us from Prabhudas Lilladher Mr. Surjit Arora. I now hand the conference over to Mr. Surjit Arora. Thank you and over to you.

Mr. Surjit Arora - Prabhudas Lilladher

Good morning everyone, welcome to this post results conference call of Bajaj Auto. We will straightaway go to Q&A session. I would like to request the moderator to kindly take it forward.

Moderator - Rochelle

May we move on directly to questions now sir?

Mr. Surjit Arora - Prabhudas Lilladher

Yes please.

Moderator - Rochelle

Thank you. Ladies and gentlemen we will now begin with the question and answer session. To ask a question at this time please enter "*" followed by "1" on your touchtone telephone. If your questions have been answered and you wish to withdraw a question from the queue, please enter "*" followed by "2". Participants are requested to please use handsets for asking a question. To ask a question please enter "*" followed by "1" now.

Our first question is from the line of Mr. Jinesh Gandhi from Motilal Oswal Securities Limited. Please go ahead.

Mr. Jinesh Gandhi - Motilal Oswal Securities Limited

Good morning Kevin.

Mr. Kevin Dsa - President (Finance), Bajaj Auto

Good morning.

Mr. Jinesh Gandhi - Motilal Oswal Securities Limited

Congratulations on good results.

Mr. Kevin Dsa - President (Finance), Bajaj Auto

Thank you.

Mr. Jinesh Gandhi - Motilal Oswal Securities Limited

Kevin, a couple of things. Can you throw some light on your hedging which is left for exports now?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

What we have is approximately 90% of our exports for the current year has already been hedged, the balance 10% that is remaining unhedged we have kept a counter hedge on the other side by taking a preshipment packing credit. So that the interest that you see on accounts of Rs. 63 lacs is the interest that we have paid on this dollar borrowing which we are using it as a natural hedge against the unnet covered exports. So 90% of our exports has been covered, current realisation in the Q1 was at the rate of 46.84 and it was slightly below the 47 mark because exports was far ahead of the budgeted numbers. So the extra over the cover had to be taken as a spot rate which at that particular point of time was below 47. My view is given as Rupee is today and the cover that we are taking one should see us getting a realisation of closer to 47 going forward.

Mr. Jinesh Gandhi - Motilal Oswal Securities Limited

And secondly in terms of our raw material cost, this current quarter fully reflect the cost pressures which is there or is some which is yet to be captured?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

No, the first quarter is reflected the entire cost increase that has been given including committed cost. As I had mentioned earlier the first quarter we entered into steel, aluminium on a quarterly basis so we had given a significant increase in the steel prices, to the steel manufacturers of

1st of April which was significantly higher than the exact price as on

31st March. We are now by and large closed all our negotiations of the steel parties for the contract from 1st July to 30th September which is lower than the price, i.e. we had taken a reduction. Having said that inspite of the reduction Q2 steel price is still higher than Q4 price of last year. It is lower than Q1 but higher than Q4. As far as aluminium is concerned we had purchased quantity contract which was there on 1st of April, we have seen a reduction coming down from 1st of July and therefore as far as Q2 is concerned very clearly the input cost will be lower than Q1. Having said that visibility of Q3 and Q4 is not there but my personal call is whichever way the material goes up or down it will not be significant as what we have seen in the past. We are gradually moving upwards or gradually moving down.

Mr. Jinesh Gandhi - Motilal Oswal Securities Limited

Got it and thirdly our other income has gone up quite substantially in this quarter, was there any non-recurring item reflecting in other income or how do you see it going forward?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

No, the other income that you see is a close reflection of the export numbers because this includes primarily DEPB. So if you see the exports which has gone up in value terms from Rs. 637 crores to Rs. 1210 crores which is a growth of about 90% which is almost similar to the growth that you are seeing in the other income. The other income if you see it includes many petty items but the prime driver of other income is the DEPB.

Mr. Jinesh Gandhi - Motilal Oswal Securities Limited

That would be reflecting in other operating income, right?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

Yeah, other operating income.

Mr. Jinesh Gandhi - Motilal Oswal Securities Limited

I am talking of treasury income.

Mr. Kevin Dsa - President (Finance), Bajaj Auto

Treasury income is completely no one off situation over there, treasury income reflects the surplus that we have garnered in the year of about Rs. 3700 crores. If you see last year because of the, the year before that was a bad year we started the year with a surplus of only Rs. 900 crores and the surplus got generated only in Q3 and mostly in Q4, maybe ended the year at somewhere near Rs. 3200 crores. In the current year working capital operating profits etc. we are seeing the growth taking place so the Rs. 81 crores that we have seen over there is a fair reflection of the earnings that we are getting on the surplus funds. As against the Rs. 122 crores that we saw for the whole of last year, my estimate for the whole year will be somewhere near about Rs. 250-275 crores. Rs. 81 crores will come down in the second quarter purely because of the dividend distribution of Rs. 675 crores that is happening today.

Mr. Jinesh Gandhi - Motilal Oswal Securities Limited

Ok sir, thanks Kevin and all the best, I will come back in the queue.

Moderator - Rochelle

Thank you Mr. Gandhi. Our next question is from the line of Mr. Rajat Malhotra from Franklin Templeton. Please go ahead.

Mr. Rajat Malhotra - Templeton

Hi Kevin.

Mr. Kevin Dsa - President (Finance), Bajaj Auto

Hi there.

Mr. Rajat Malhotra - Templeton

Could you throw some light on your exports on 3 wheelers what is the outlook and as well as on motorcycles?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

Outlook is extremely positive, If we look at it last year we set a target of 800,000 we crossed it and touched close to 900,000 and in this year set up a target of a million but all poised to exceed the target. The first quarter as you have seen we have done about 300,000 odd numbers, we should be able to repeat that in the second quarter because the order book is extremely strong so we will end the first half at about 650,000 numbers. In this what we are seeing is 3 wheelers has an extremely robust demand in the export market, Sri Lanka, Egypt and Africa driving the sales and that's why if you see last month, last quarter we had an average 3 wheeler exports of about 20,000 numbers. Order book for this quarter is also 20,000 numbers but fortunately or unfortunately it depends on how you look at it, the domestic market is also really strong for 3 wheelers. And capacity is a constraint so what we will do is we may push exports into the third quarter and feed the domestic market in the second quarter. But if I look at it in terms of export, if you look at the whole year horizon I think we should be able to beat the one million guidance by 100,000 numbers. Similarly motorcycles continues to be strong averaging about 75-80,000 numbers per month. The second quarter also the order book was full to that extent and third and fourth quarter I believe should be reasonably strong.

Mr. Rajat Malhotra - Templeton

So in terms of your sort of profitability between 3 wheeler exports and domestic, is that comparable?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

It is comparable, if I put it this way that as far as the profitability goes across all product ranges and across all countries exports gives us approximately 3-4% higher EBITDA than the domestic market. Barring, Nigeria or Africa if I may call it where the motorcycles gives us a similar EBITDA as the domestic market.

Mr. Rajat Malhotra - Templeton

And in terms of your motorcycle exports you are going to be seeing a positive product mix in the export side or how is it going to play out?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

I think it will be driven still by Africa so whether the other market should grow about 5-10%, Africa should go at about 20-25% which means that what we are going to see is the mix being in that sense or shall I put it more of Boxers in that family. But for me that doesn't really distort the EBITDA margins or anything else because the margins of that family is pretty strong. For your information we have also taken up the prices of all our export products with effect to 1st July.

Mr. Rajat Malhotra - Templeton

How much was that?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

We won't be able to share that but we have taken it up from 1st of July.

Mr. Rajat Malhotra - Templeton

And in terms of your production from your PantNagar plant, what's the sort of ramp up that you are looking like..?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

We did 217,000 in the first quarter, I would expect it to go to about 250,000 in the second quarter and we will end the year with the production of 1 million. And this 1 million compares with about 579,000 that we did in the previous year.

Mr. Rajat Malhotra - Templeton

And one question on your Pulsar 135, how has that been?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

We are doing about 10-12,000 numbers per month that is incremental sales because the Pulsar 150, 180, 200 is still going at about 60,000 numbers and this is top of about 10-12,000 numbers.

Mr. Rajat Malhotra - Templeton

And you are also launching Discover 150 I believe?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

We have already launched Discover 150, the Discover 150 was launched in end of May in select areas doing very well and that's why it looks like at this stage that the potential of the Discover 150 touching about 40,000 numbers is very much there on the cards. And this 40,000 numbers is not coming within significant cannibalisation on Discover 100. So as of today, even today morning the Discover 100 is out of stock, the Pulsar 150 is out of stock, Discover 150 and 100, all out of stock.

Mr. Rajat Malhotra - Templeton

And your Discover 100 touch point roll out across India, is that complete or you will see...?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

Discover 100 is completely across the country, Discover 150 which was launched in the month of May is still to reach certain other states.

Mr. Rajat Malhotra - Templeton

And any production constraints on 2 wheelers side for you right now?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

Very much I think at every month we have not been able to sell, meet the demand by about 20,000 numbers. We hope to rectify the situation a little bit in July but the constraint will always be meeting the festive demand that is coming up in October-November. Even today dealers stocks from a normal of about 20 days including 7 days of transit time has

come down. So while we get into the festive season with one month or 15-20 days of the shraad period I still believe that it is going to be a challenge to meet the demand in October.

Mr. Rajat Malhotra - Templeton

One last question on your other expenses, the level of other expenses are going to be similar to this quarter going ahead?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

The other expenses I would say that on a steady state, the other expenses that we have seen of Rs. 219 crores does not include significant amount of advertisement spends.

Mr. Rajat Malhotra - Templeton

Can you repeat that Kevin?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

The Rs. 219 crores we have seen in other expenditure does not include significant amount of spends on admin & sales promotion. Need for ad and sales promotion is not felt in Q1, not felt in Q2 primarily because we are already stock out. But if I go into Q4 when the market I presume is reasonably I would say established and consolidated then we need to spend one more money on those areas and that's why one could see an increase in other expenditure in those quarters. Having said that for a company of our size and that's why one of the questions that we are anticipating is EBITDA margins Quarter On Quarter, my problem comes in for a company of our size, any one off transaction is about Rs. 9-10 crores. And when you have 1-2 transactions in a quarter then the EBITDA goes up by about 0.75 to 1%. But on a whole year basis it makes no difference so that's my only concern so if we look at other expenses of Rs. 219 crores nothing of oneoff is there. Q2 logically should remain the same, marginally change will come up barring one off cases that may come in the quarter.

Mr. Rajat Malhotra - Templeton

So broadly you will be fairly comfortable on a 20%+ EBITDA margins for the year?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

I would say so because the reason why I am confident is I see EBITDA margins 20% in the first quarter coming on the back of 0.6% one time hit to the labour cost which is performance awards etc. which will not be there in the second quarter. The second is the steel prices, aluminium prices in the second quarter has come down. Thirdly like I mentioned I have taken up export prices on 1st of July, fourth is I have taken up the prices of all our products on around 7th of June so the full impact will come in the second quarter. So the second quarter logically barring unforeseen circumstances should be higher than the 20% and the third and the fourth quarter I budgeted 19.5 or 20%, I am still on the 20% mark.

Mr. Rajat Malhotra - Templeton

Ok, thanks Kevin.

Mr. Kevin Dsa - President (Finance), Bajaj Auto

Thanks.

Moderator - Rochelle

Thank you Mr. Malhotra. Our next question is from the line of Mr. Jairam Nathan from Kotak Securities. Please go ahead.

Mr. Jairam Nathan - Kotak Securities

Hi Kevin.

Mr. Kevin Dsa - President (Finance), Bajaj Auto

Hi.

Mr. Jairam Nathan - Kotak Securities

Just on the raw material cost, will it be possible for you to increase your contract terms given the decline we saw in spot prices?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

No, because the steel manufacturers will not agree. When you discuss this the steel manufacturers, they are more or less quite confirming that July is going to be soft, August is going to be soft and September is going to be slightly hardened. The issue is no one knows what is going to happen in October because on one side people are talking of the iron ore prices coming down and in the second phase that whether it has an impact on the steel prices on the input cost. So no one really wants to take a call on that so that's why it is a question of buyer and seller both, we believe that the prices are rock bottom, I love to do 6 months but the steel manufacturer will not agree.

Mr. Jairam Nathan - Kotak Securities

And on the pricing actions can you just brief us on what actions you have taken in the first quarter and Q2 to date?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

In the first quarter we had taken up on 1st of April the Platina price of by about Rs. 500-1000, now the change on the product segments. Then on 8th of June we took the prices of Platina by Rs. 1000, the Discover by Rs. 500, the Pulsar family between Rs. 500-1000 and that's about it. As far as 3 wheelers goes on 1st of April we took up the prices by about Rs. 2000 but this did not take to cover the cost because of the fact that we had to spend money on the environment till clearances. We have to spend money on the upgrades and the steel increase. So the Rs. 2000 that we increased in the 3 wheeler prices did not recover the total cost.

Mr. Jairam Nathan - Kotak Securities

And how should one think about price increases going forward?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

I don't think there is a necessity.

Mr. Jairam Nathan - Kotak Securities

Ok. Thank you.

Moderator - Rochelle

Thank you. Our next question is from the line of Mr. Utkarsh Maheshwari from Reliance General Insurance. Please go ahead.

Mr. Utkarsh Maheshwari - Reliance General Insurance

Good morning Kevin.

Mr. Kevin Dsa - President (Finance), Bajaj Auto

Good morning.

Mr. Utkarsh Maheshwari - Reliance General Insurance

Congratulations on a good set of numbers.

Mr. Kevin Dsa - President (Finance), Bajaj Auto

Thank you.

Mr. Utkarsh Maheshwari - Reliance General Insurance

Kevin I just want to know one thing, what kind of competition are we facing from other players in the 3 wheeler segment and any plans on relaunching Bajaj in the non-geared format?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

In terms of 3 wheelers yes TVS has been making a bit of the inroads but then if you are enjoying 90% market share naturally it does fall when competition comes in. But to be honest TVS is moving up into the segment so it has done about 2-2500 numbers. As far as the cargo, the outside segment is concerned where the TVS is not there, we are in number 2 to Piaggio and that's where we are catching up. So for me in the domestic market 2500-3000 numbers has been given to TVS but very frankly I think as far as three wheeler goes it is the sale of 35000 capacity that we are creating for both the export market as well as the domestic market. So absolute numbers will show growth, market share may show a fall.

Mr. Utkarsh Maheshwari - Reliance General Insurance

And probably are we getting some kind of traction for the Piaggio and in the passenger segment? Are we able to see some kind of a value reduction?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

As far as the cargo segment is concerned, we are effectively a very small player. We still are only about 800-900 numbers.

Mr. Utkarsh Maheshwari - Reliance General Insurance

And how about the passenger segment?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

As far as the passenger segment and the diesel segment we do about 2500-3000 numbers, that why we compete with Piaggio but to be frank we are number 2 over there.

Mr. Utkarsh Maheshwari - Reliance General Insurance

I believe there was some speculation of about 2 wheeler launch, the scooter launch for the non-gear...?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

No, not at all.

Mr. Utkarsh Maheshwari - Reliance General Insurance

Ok. Thank you.

Moderator - Rochelle

Thank you. Our next question is from the line of Mr. Mitakshi Ashar from JM Financial. Please go ahead.

Mr. Pramod - JM Financial

Kevin good morning this is Pramod here.

Mr. Kevin Dsa - President (Finance), Bajaj Auto

Yeah Pramod.

Mr. Pramod - JM Financial

Kevin if I look at your export numbers the 150 cc+ segment has seen a sharp increase last month. So I believe it must be more of Pulsars so is this kind of a sustainable trend which you are looking at and if yes the markets wherein you have gained market share on Pulsar?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

I couldn't catch, there was some disturbance on the line.

Moderator - Rochelle

Sir, this is the operator, sir are you on the speaker phone?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

Yeah but I can hear you loud and clear, let me just get the question again?

Mr. Pramod - JM Financial

Sorry. My question was that for the month of June you have seen a pretty strong increase in export volumes for 150 cc segment. So just wanted to ask and I believe most of that would be Pulsar so is this like a, you see that kind of a number sustainable for the near future and if yes which are the kind of markets where you have gained traction on Pulsar?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

Pulsar the traditional markets continue in Phillipines, Columbia and Bangladesh. So it will continue in that segment but don't look at it as a one off type of situation of June etc. One needs to look at the overall numbers of motorcycles where we are heading rather than getting into these internal breakups of the Pulsar growing up because it is too small right now in terms of volumes. The next month for example you may land up in a situation where order comes for the Boxer so you shouldn't raise the conclusion that the Pulsar is falling.

Mr. Pramod - JM Financial

Not but I am just saying is there a trend as after a long time the number have shot up considerably so whether we are going to see more higher Pulsar numbers in terms of exports going forward?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

I would say that Pulsar will grow, Boxer will grow and the Discover will grow. Month on Month it is difficult for me to say but all these segments will grow significantly.

Mr. Pramod - JM Financial

And Kevin some more light on the 3 wheeler project now that there has been some change in the structure between the partners and when is it due and what is the kind of investment and I believe Rajiv once on TV told that margins even with that product will be 20%+. If you can throw some more light on that?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

I will share with you what Rajiv mentioned at the AGM yesterday that we are creating a platform and on that platform we will be able to create commercial vehicles as 4 wheelers, we will be able to create commercial vehicles in our substitution of 3 wheelers and 4 wheelers. We will also create vehicles which can be manufactured as to make a car. So we are investing right now in the platform which can be used for different 3 categories.

Mr. Pramod - JM Financial

And in terms of investment entailed and timeline?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

Rajiv has given a guidance of about Rs. 500 crores is there in today's papers as well.

Mr. Pramod - JM Financial

And the profitability I think, how is the arrangement between Renault Nissan and you guys?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

As far as Renault Nissan is concerned there is too much of controversy so we have all decided not to say anything on that. But as far as the profitability is concerned Rajiv in the past and Rajiv also has said continues to maintain that we are EBITDA focussed company and we will ensure that whatever products and whatever lines we launch into gives EBITDA closer to the 20% mark rather than chasing volumes and numbers and echo by going to 10-15% EBITDA levels. So if the product that we are talking about doesn't give us the 20% EBITDA we may review and rethink.

Mr. Pramod - JM Financial

And last question on 3 wheelers Kevin, is there any new permit market opening up in terms of any city looking where you are seeing possibility of permits opening up?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

Tamil Nadu has cancelled the concept of permits and that is why there is a big sale taking place and demand taking place in Tamil Nadu, potential is almost about 30-35,000 numbers.

Mr. Pramod - JM Financial

And this would be per annum or it will be more like one off kind of thing?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

There is no permits any longer required in Tamil Nadu so therefore there is a pent up demand about 35000 numbers that need to be satisfied.

Mr. Pramod - JM Financial

And this is in the lines with what has happened in Gujarat, right? In terms of Gujarat it is also true?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

Surat, Gujarat, correct.

Mr. Pramod - JM Financial

Sounds great sir. And thanks a lot and best of luck.

Mr. Kevin Dsa - President (Finance), Bajaj Auto

Thank you.

Moderator - Rochelle

Thank you. Ladies and gentlemen before we take the next question we would like to request participants to please use handsets while asking a question.

Our next question is from the line of Ms. Supriya Madhye from HSBC Invest Direct. Please go ahead.

Ms. Supriya Madhye - HSBC Invest Direct

Congratulations Mr. Dsa for the great set of numbers.

Mr. Kevin Dsa - President (Finance), Bajaj Auto

Thank you.

Ms. Supriya Madhye - HSBC Invest Direct

Sir could you please explain me once again the point which you just mentioned before for 35,000 units in Tamil Nadu?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

Tamil Nadu Government has waived this out the need of permits so it has almost become an open market over there and there is a pent up demand for about 35,000 3 wheelers that needs to be satisfied. And that's why in the next 3-4 months we will see a significant amount of sales in the domestic market for Bajaj Auto and to Tamil Nadu.

Ms. Supriya Madhye - HSBC Invest Direct

Yesterday Mr. Bajaj was saying that this year we will be doing around 4mn capacity. So is our current plant capacity can manufacture this number, this kind of a number or we need to go for some balancing of equipment?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

Obviously the capacity expansion is required. If you look at it we have already have done about 923,000 numbers in the Q1, my second quarter estimate is about a million numbers and in third and fourth quarter we should be doing a million plus. So therefore the 4 million seems to be on track. As far as capacity constraint is concerned one needs to look at capacity not only within the plant but within the entire vendor cluster base around the plants, that's where we are facing difficulties. So this month onwards we are trying to take the motorcycle capacity upto 300,000 numbers per month and 3 wheelers to 35,000 numbers per month. But at the exit point that's on 31st March 2011 we would like to plan to have a capacity of 5 million vehicles.

Ms. Supriya Madhye - HSBC Invest Direct

That is for FY11?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

FY11 exit point.

Ms. Supriya Madhye - HSBC Invest Direct

And what kind of an investment will you be doing in for the same

Mr. Kevin Dsa - President (Finance), Bajaj Auto

The total investment in the current year will be in the range of about

Rs. 225-250 crores. This will include investment on capital expenditure for expansion, capital expenditure on R&D and a little bit of capital expenditure that will be required for a 4 wheeler platform and for support services.

Ms. Supriya Madhye - HSBC Invest Direct

Thanks a lot sir and wish you very best for the current quarter.

Mr. Kevin Dsa - President (Finance), Bajaj Auto

Thank you so much.

Moderator - Rochelle

Thank you Ms. Madhye. Before we take the next question we would like to remind the participants that you may enter “*” followed by “1” to ask a question.

Our next question is from the line of Mr. Srinivas Rao from Deutsche Bank. Please go ahead.

Mr. Srinivas Rao - Deutsche Bank

Hi Kevin. How are you?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

All good here.

Mr. Srinivas Rao - Deutsche Bank

Congratulations on fantastic numbers.

Mr. Kevin Dsa - President (Finance), Bajaj Auto

Thank you.

Mr. Srinivas Rao - Deutsche Bank

Just wanted to kind of get your feedback on 2 things. One is on the motorcycle demand, more clarity as to how you think this whole Discover 150 and Pulsar 135 will stand out in terms of brand overlap? Is there something which you are actively looking at?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

The way I look at it is my personal assessment is both the products doing very well. I think we have been able to create a very good commuter brand right now and earlier feeling that the commuter has to drive only a frugal fuel efficient vehicle with no frills that myth has somehow been broken. So commuter is no longer the person who wants a 100cc bike that gives only 65-70-80 kms and cost Rs40,000 the commuters will now willing to pay more, wants to have better things in life and therefore fuel efficiency is almost one thing has taken but also want something additional. And that's what the Discover 100 and Discover 150 has both proved. Currently my estimate, my own personal estimate, don't hold me responsible for that is as a family I would say that the Discover 150 and Discover 100 could well do somewhere near about 130,000 numbers per month, 130,000-140,000 numbers that's the potential in the near term that one would see it. At the same time if I look at it in terms of the Pulsar family, here again I see a potential to reach about 75,000 numbers a month. So for us the Discover, the Pulsar both put together could give us a figure of about 200,000 numbers a month domestic. And then the Platina I am saying will hover around 30-35,000.

Mr. Srinivas Rao - Deutsche Bank

And finally on Nigeria do you see any competitive intensity going up on account of Chinese or the fact that Honda has also talked about planning to launch a new 125cc motorcycle there?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

As far as Africa is concerned one good that happened was this slowdown that took place over there. One is primarily you see when we entered into Nigeria we were selling our vehicles at the same price as the Chinese because for no other reason that we wanted to get a chance when Nigerian people over there from the income levels and the disposable income they couldn't afford to pay anything more than that. But over a period of 2 years we have created, infact at that particular point of time for every vehicle we sold we were losing \$50 on a total cost basis. But over a period of time our quality, warranty, our fuel efficiency everything has paid rich dividends and the Boxer has become an extremely strong brand over there. So for us over there the Boxer is like a brand tagline 'is stronger for longer' and that's really met a lot of benefits. So when the slowdown took place I think people went and put their hardened money to a reliable product and that's why Chinese have actually come down and we are getting significant market share. What is more important is today our vehicles are selling at a 50% premium to the Chinese and hence in my opening remarks I said today when we sell the Boxer in Nigeria we make the same profit as a percentage for what I get in Platina in the country in India. And going forward as far as competition is concerned, I think Honda has been there for a number of years but has been a very small player. I don't know what the impact of the new 125cc they are launching will really have an impact and secondly on a personal level I wonder that whether Nigeria is going to be main interest for Honda. Because doing business in Nigeria is a different ball game altogether.

Mr. Srinivas Rao - Deutsche Bank

And finally a last question on financing. Do you see that how it is happening in the sense, are you getting more support from the scheduled commercial banks or what's the scenario there?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

As far as financing is concerned I would say that today out of 175,000 odd domestic motorcycles we sell, 55,000 vehicles are financed of which about 40-45,000 are done by our own sister company Bajaj Auto Finance. The balance 8-10,000 numbers may come from HDFC or from some few other banks. I don't see very strong participation taking place on public sector banks and again I don't see ICICI coming in so I think this is where it is but honestly I believe financing is not going to be a major cause for concern. You don't even give an upset kicker at a later stage.

Mr. Srinivas Rao - Deutsche Bank

You don't see reaching 4 million will be considering because of finance?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

No, no.

Mr. Srinivas Rao - Deutsche Bank

Thank you and this is really helpful and congratulations once again.

Mr. Kevin Dsa - President (Finance), Bajaj Auto

Thank you.

Moderator - Rochelle

Thank you Mr. Rao.

Our next question is from the line of Mr. Kaushal Maroo from Religare Capital Market. Please go ahead.

Mr. Kaushal Maroo - Religare Capital Market

Hi Kevin.

Mr. Kevin Dsa - President (Finance), Bajaj Auto

Hi Kaushal.

Mr. Kaushal Maroo - Religare Capital Market

My question is on the Pant Nagar plant, can you share the kind of product mix that you are producing from there right now?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

Right now we are producing Platina, we are producing Discover 150, Discover 110 and the Pulsar 135.

Mr. Kaushal Maroo - Religare Capital Market

The numbers you can share please?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

The numbers we have done about average of 73-75000 numbers in the first quarter. Second quarter my estimate will be about 80-85,000 and in the second half we will be doing about 100,000.

Mr. Kaushal Maroo - Religare Capital Market

I assume that the incremental production, they will all be more profitable bikes the 110 cc Discover?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

Because the Platina will stop at about 30-35,000 numbers and the rest of the growth is going to take place and Bajaj Auto's portfolio will be from Discover and the Pulsar. So if you see Q1, Q2, Q3, Q4 the Platina family will be about 35,000-40,000 at the most and the entire growth that will take place sequentially will come on the other numbers.

Mr. Kaushal Maroo - Religare Capital Market

And the incremental production, the incremental capacity that you are setting up is coming in from Pantnagar?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

At Pant Nagar.

Mr. Kaushal Maroo - Religare Capital Market

Ok. Thank you.

Moderator - Rochelle

Thank you very much.

Our next question is from the line of Mr. Jamshed Dadabhoy from Citigroup. Please go ahead.

Mr. Jamshed Dadabhoy - Citigroup

Hi Kevin, congrats on great set of numbers.

Mr. Kevin Dsa - President (Finance), Bajaj Auto

Thanks.

Mr. Jamshed Dadabhoy - Citigroup

Just a quick question, in your Annual Report you have noted that the industry the way it has evolved, the commuter and sports about 80% of the market. And for you'll the same split is about 76%. Do you see this split meaningfully changing, commuter and sports going to about 90% or so of your share? Or do you think it peaks out AT about 80-85%?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

You are talking of which framework, which timeframe?

Mr. Jamshed Dadabhoy - Citigroup

Next year and year and a half for Bajaj Auto for domestic motorcycle.

Mr. Kevin Dsa - President (Finance), Bajaj Auto

For domestic motorcycle I would say if I look at it, I would say commuter will continue to grow and will form a bigger pie, the only because of fact that is the biggest chunk of the product and the people. So like I mentioned if you look at my product mix, maybe year down the road I would say that this is without commitment of the number but just a gut feel. The Discover family defined as commuter would be as much as 150,000 whereas the Pulsar could be somewhere near about 100,000.

Mr. Jamshed Dadabhoy - Citigroup

Could you split that into commuter standard and commuter deluxe?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

Commuter standard is basically, what we say commuter standard is only the benchmark of commuter standard is the CD Dawn, CD Deluxe and the Platina. Platina will be at 30,000 itself, that's it.

Mr. Jamshed Dadabhoy - Citigroup

Number two, on the industry when we met in May your guidance was about 12-14% volumes so in the industry. Given the uptake you'll have seen in Q1 and what you'll are seeing in terms of stockouts not just for you all but your competition also. Do you see any upside to that number?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

I would still say that the 28% in the Q1, I would still peg it at about 15% growth for the industry with a slight upward bias. Because if you see the growth that took place for Bajaj and for the industry came in the second half. The second half the industry, between last year, last year if you see first half and the second half, the second half the industry grew by 7 lac numbers and the entire 7 lacs came to Bajaj, rest of the players were flat. So what you are seeing happening is and I don't have the numbers of TVS and Hero Honda etc. but you will see them I think growing at about 5-7%, I could be wrong over here. We are going at about 60% and therefore the industry is at the 28% mark. As you go forward obviously it has given a base effect our growth will taper down and the industry growth will taper down so I would still say that the industry growth would be at about 15% with a slight upward bias.

Mr. Jamshed Dadabhoy - Citigroup

Last question on your exports, you mentioned in your opening question, 90% of your exports are hedged. What is this value exactly? Is it about

Rs. 4,500 crores?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

It is about Rs. 4,200 crores.

Mr. Jamshed Dadabhoy - Citigroup

Ok. Fine. Thanks so much.

Mr. Kevin Dsa - President (Finance), Bajaj Auto

Thanks.

Moderator - Rochelle

Thank you.

Our next question is from the line of Mr. Shiv Chanani from Reliance Mutual Fund. Please go ahead.

Mr. Shiv Chanani - Reliance Mutual Fund

Hi Kevin.

Mr. Kevin Dsa - President (Finance), Bajaj Auto

Hi there.

Mr. Shiv Chanani - Reliance Mutual Fund

Just a couple of things. One is in terms of let's say on industrywise basis when do we actually see these constraints getting out of the system?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

I was just talking to Ravi Sud today morning, he is also having same problem. So what happens is today the industry doing so very well and gaps are coming in primarily from the vendor side, the gaps are coming in from the supply side. So it is not so much as an internal issue between which say for example Bajaj or Hero Honda can address because the capital is there, the machine is there, the manpower is there. What is happening at the ancillary end as well as the OE side. So the problem that we are facing as an industry is basically that we are getting into July-August-September with no inventory in the system and a huge pileup that's going to take place. So the challenge is again I am saying is going to be how do I feed for Dussera and Diwali demand. And it is purely on how well the vendors can cope up.

Mr. Shiv Chanani - Reliance Mutual Fund

So I mean would it be fair to say that this capacity constraint is not going to go away atleast in this calendar year?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

I would say that Post November once Dussera and Diwali is over then the demand should come down a little bit and the capacity will be available.

Mr. Shiv Chanani - Reliance Mutual Fund

Secondly in terms of the 3 wheeler exports, we have seen a huge jump, one is of course because of the pent up demand and whatever happened in the first half of last year. Is there any specific order feeling that has happened?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

No, as far as the major exports are coming in 3 wheelers, there is something that I anticipated last year, it should have happened last year, with the LTTE issue getting closed. Now that Sri Lanka should get into a development mode and that is why we all anticipating a demand for 3 wheelers coming from that segment but has come in now. So it is about 6 months lag and that is why this issue is demand for 3 wheelers coming from Sri Lanka, Egypt continues to be growing and Africa is almost like a virgin territory for us. So that's why for us even if you see the first quarter we did 20,000 numbers, the second quarter order book is also for 20,000 numbers per month. But like I mentioned earlier there is also demand coming in from Tamil Nadu. Capacity is restricted to 30 which we are trying to push it upto 35. So there is a little bit of what I would call rationing between the domestic and the exports. So that's why for us when you look at this horizon, looking at about 35,000 numbers of 3 wheelers domestic and export. For the balance 9 months seem to be very much on cards and therefore we could logically again cross our target of 400,000 3 wheelers for the year.

Mr. Shiv Chanani - Reliance Mutual Fund

And third is again little bit on longer term basis. We have been hearing a lot about this microfinance things and stuff like that. Very sincerely the ticket size is pretty small, 10,000-20,000 kind of numbers of loan is what we are talking about. I mean is there a potential that itself can throw up a new market for you guys let's say in a couple of years time, may not be immediately?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

I wont rule out the issue is basically this entire thing is more from self help group that uses it for raising funds for some own domestic purpose. Basic issue over here is the cash collection mode. Anyone who is sitting and saying Bajaj Finance or ICICI or HDFC who operates on a situation where you are collecting cheques etc. it cannot work. So it has to operate in cash collection mode and that's where the challenge really comes in.

Mr. Shiv Chanani - Reliance Mutual Fund

But that's why this microfinance group actually specialises.

Mr. Kevin Dsa - President (Finance), Bajaj Auto

Correct but what happens is even if you look at the microfinance group the interest rates is almost at about 30%+ because they have to take care of all the expenses and that's where there is a mix between cost as well as administration cost, collection cost and the interest cost and at the end of the day to the end customer that makes the difference. Will it succeed in the long term, I believe so. It is the question of who takes the lead.

Mr. Shiv Chanani - Reliance Mutual Fund

As of now you are not seeing any demand coming from that pocket?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

From that pocket actually we are not stressed ourselves to that levels because as you know Bajaj Finance also like in the past went through a bad period. So we are getting into a much more concentration of focus on profit, profit, profit and the bottomline has gone across all plants and all companies whether insurance, whether it is Finserv, whether it is Bajaj Finance. So it is not volume growth, it is more of the profit growth and that's where they always look at the bottomline in terms of the administrative cost and the other cost versus the total bad debt collection cost.

Mr. Shiv Chanani - Reliance Mutual Fund

Alright Kevin, thanks a lot.

Mr. Kevin Dsa - President (Finance), Bajaj Auto

Thanks so much.

Moderator - Rochelle

Thank you Mr. Chanani.

Our next question is from the line of Ms. Madhuchanda Dey from Kotak Securities. Please go ahead.

Ms. Madhuchanda Dey - Kotak Securities

Good afternoon, I have housekeeping questions. If you could give me a geographical backup of your average monthly export growth of motorcycles and 3 wheelers?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

It is about 50% in Africa...

Ms. Madhuchanda Dey - Kotak Securities

No, I just wanted countries share, not about continents...

Mr. Kevin Dsa - President (Finance), Bajaj Auto

That we don't share, we don't share it for the simple reason that competition is also coming in so we don't like to put in the public domain.

Ms. Madhuchanda Dey - Kotak Securities

Even for 3 wheelers if you could shed some light?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

3 wheelers is basically Sri Lanka, Bangladesh, Egypt, a little bit in Guatemala and balance in Africa.

Ms. Madhuchanda Dey - Kotak Securities

In 2 wheelers other than Nigeria which is the other dominant African geography?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

All the other landlocked countries around Nigeria that includes Kenya, Sudan, Etopia, Uganda and Tanzania, all those countries.

Ms. Madhuchanda Dey - Kotak Securities

Could you comment on the performance of your Indonesian company?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

Indonesian company last year if you have seen the Balance Sheet we had a loss of about...

Ms. Madhuchanda Dey - Kotak Securities

Just talking about this quarter...

Mr. Kevin Dsa - President (Finance), Bajaj Auto

You need me to complete otherwise it becomes very piecemeal. The Rs. 11 crores Balance Sheet which you have seen you will not have noticed but there is Rs. 17 crores one time foreign exchange gain that takes actual loss to about Rs. 38 crores. So the Rs. 11 crores will be misleading the loss is about Rs. 38 crores. As far as the current quarter is concerned there is a loss of Rs. 6 crores. We have allowed the Pulsar 135 over there in the current quarter, it is doing exceedingly well looking at the numbers and we would still continue to make a loss in the current year and my earliest estimate for it to break even will be 2012 and that's when we hopefully move from SKD to CKD mode.

Ms. Madhuchanda Dey - Kotak Securities

What kind of volumes are you kind of working with for this year?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

I am looking at about 25000 numbers.

Ms. Madhuchanda Dey - Kotak Securities

Ok. Thanks a lot.

Moderator - Rochelle

Thank you.

Our next question is from the line of Mr. Rajat Chandak from ICICI Pru AMC. Please go ahead.

Mr. Rajat Chandak - ICICI Pru AMC

Congrats Kevin for good set of numbers.

Mr. Kevin Dsa - President (Finance), Bajaj Auto

Thank you so much.

Mr. Rajat Chandak - ICICI Pru AMC

Just one question on KTM, what is happening there? In Annual Report in financial year `10 the losses have increased there and what is the status now on the KTM side?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

They have year ending that ends in August so the first quarter which was September-October-November, they had a profit of 3.6 million. In the second quarter they had a loss of 900,000. The estimate that has come out of the third quarter is again a profit. So what you see for the

9 months they will have a profit of about 3 million euros as against the loss of 66 million earlier 9 months. They are breaking even so if you look at it, if you see my FY `10 numbers, the consolidated profit of our was

Rs. 1597 crores as against standalone profit of Rs. 1700 crores. If we go into FY `12, if I project the profit of standalone will be more or less equal to the profit of the consolidated. Any loss of Indonesia account which there will be a loss that will be made up by the profit on the KTM side.

Mr. Rajat Chandak - ICICI Pru AMC

I want to understand about the outlook on KTM, what are we doing? What are our future plans?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

KTM we have taken a stake from 31.4% to 35.2% in the current quarter. We have invested about Rs. 120 crores. The intention of working with KTM is primarily to develop jointly engines and platforms that can be exploited by both the companies. What is good for us is whether this KTM we have also been leveraging Kawasaki. So on the longer term picture if I talk about horizon of 3-5 years Bajaj will be looking at sort of 3 segments, the lower segment which we call commuters standard or whether you call it as a lower strata that will be dominated by the Boxer as a brand and which will be sold in the developing countries like Africa. That's let say is the price point of \$1000 and below. In a price point of \$1000-3400-5000 that will be the Bajaj brand as defined by the Discover and the Pulsar. Once you go to the top end we acknowledge that the Bajaj brand per say will now be able to get the premium and that is why we will leverage KTM and Kawasaki. Now let us look at the India situation, today sub 40,000 is Platina, 40-55 is the Discover, 55-100 and maybe 110-115 would be the Pulsar. From 125 to 250 or Rs. 300,000 is where we will place KTM, 350 and above we already have the Kawasaki Ninja. So that's what we intend doing. It also enables us to use each of the distribution network to sell our products. For example the whole of Phillipines where we sell 100,000 numbers a year, we sold through the Kawasaki network.

But tying up for example Kawasaki has not got an entry to India where they sell Ninjas. We can then use KTMs network in Europe to sell the Pulsars. So this brings about a huge amount of synergy between the three groups. And the benefit is none of us are participating in each other's space. For example KTM prepares all offroad bikes. They cannot have street bikes as we have. Kawasaki doesn't have much of the lower end bikes, they are known for higher end bikes. So there is a lot of synergy that we can exploit and this is the longer term vision.

Mr. Rajat Chandak - ICICI Pru AMC

Just to understand how are we related with Kawasaki, what is the arrangement?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

There is no arrangement except that we have a technical tie-up agreement for which we have been using their services at initial stages where we launched KB 100 etc. Right now all the products that we have launched are from our stable, we still do pay them a royalty on a miniscule portion of our production which is the Boxer or Platina that range is miniscule.

Mr. Rajat Chandak - ICICI Pru AMC

Thank you.

Mr. Kevin Dsa - President (Finance), Bajaj Auto

Thanks.

Moderator - Rochelle

Thank you Mr. Chandak.

Our next question is from the line of Mr. Navin Mata from Ambit Capital. Please go ahead.

Mr. Navin Mata - Ambit Capital

Hi Kevin.

Mr. Kevin Dsa - President (Finance), Bajaj Auto

Hi Navin.

Mr. Navin Mata - Ambit Capital

Sir I just missed out on the CAPEX number that you are looking for FY11?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

FY11 will be in the range of Rs. 225-250 crores.

Mr. Navin Mata - Ambit Capital

And also could you just repeat the pricing action we have taken in beginning of June?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

Beginning of June we took up, not beginning of June, 1st of April we had taken up that Platina price by 1000 and 500, there are 2 variants over there. Then on 8th of June, we took up the prices of Platina again by 1000 and 500 on the two variants, Discover 100 by 500, some Pulsar at 500 and some at 1000.

Mr. Navin Mata - Ambit Capital

Also we were talking about launching some KTM vehicle in India in this year. Is that plan still on?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

The KTM what we saw it was, manufacturing strength to KTM Austria in this year. It is probably sometime I would say second half of the calendar year 2011-12 that one could see something happening in India.

Mr. Navin Mata - Ambit Capital

Sir, also just wanted to check what is the China assembly capacity that we have?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

China assembly capacity right now is more of the kiting that is taking place, I would estimate it to be about 5-10,000 numbers a month because it is not a capacity but more of a kits that comes in. I would peg it right now at about 8-10,000.

Mr. Navin Mata - Ambit Capital

So as such there is no issue of scalability if the Boxer demand kind of increases out there?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

No.

Mr. Navin Mata - Ambit Capital

Right sir. Thank you.

Moderator - Rochelle

Thank you Mr. Mata. Before we take the next question we would like to remind participants once again that you may enter "*" followed by "1" to ask a question.

Our next question is from the line of Mr. Eric J Reiter from Nezu. Please go ahead.

Mr. Eric J Reiter - Nezu

I just want to clarify because I have joined in late, what guidance do you have for motorcycle and scooter segments for this year and on pricing?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

The total guidance that we have given is about 4 million vehicles,

2 and 3 wheelers. If I break this up in two parts I would say that out of this 4 million, 1 million is for exports and within this 1 million I would break up into 800,000 motorcycles and 200,000 3 wheelers. Of the balance another 200,000 you need to take for the domestic 3 wheelers and the remaining for the domestic motorcycles.

Mr. Eric J Reiter - Nezu

Can I ask you about pricing?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

Pricing we have like I just mentioned taken up the prices on 8th of June for the domestic market. We have taken up the prices on 1st of July for the export markets. I don't see any need right now of taking any further pricing action for the balance period of the year.

Mr. Eric J Reiter - Nezu

Ok. Thank you.

Moderator - Rochelle

Thank you.

Our next question is from the line of Mr. S Natraj from Quantum Advisors. Please go ahead.

Mr. S Natraj - Quantum Advisors

Can you just give a perspective of the fuel price increase or the monsoon effect, not just on FY11, beyond FY11? Any potential reduce that you see at the ground level?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

Nothing that I can really share with you but only thing that what I would say right now is the 2 wheeler become a necessity and not so much of a luxury. I would say one is really driving the 2 wheeler will continue to be the need for individual mobility, the multitasking that is taking place. That is going to be the major growth driver right now so even if there is a bit of fuel increase what one will see is primarily is a higher demand for fuel efficient vehicles. But I would put it this way, looking at the way my children are driving their bikes that the higher income level, the higher take home salary that is taking place more than takes care on the pain of the fuel efficiency of the petrol price hike.

Mr. S Natraj - Quantum Advisors

And any impact on the monsoon?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

Not seen yet

Mr. S Natraj - Quantum Advisors

Thank you.

Moderator - Rochelle

Thank you Mr. Natraj.

Our next question is from the line of Mr. Nishant Vyass from ICICI Securities. Please go ahead.

Mr. Nishant Vyass - ICICI Securities

Good morning sir. Congratulations on great set of numbers.

Mr. Kevin Dsa - President (Finance), Bajaj Auto

Thank you.

Mr. Nishant Vyass - ICICI Securities

Sir I had a couple of questions. First of all, we are looking at target capacity of around 5 million vehicles in the year end, right?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

No, I said at exit point so that takes care of your next year's target.

Mr. Nishant Vyass - ICICI Securities

Ok so what we will be looking at is what is going to be your potential increase in the Pant Nagar and the Waluj facility?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

Waluj facility, there will be increase that is taking place on 3 wheelers will be from Waluj. So from 30,000 we are going to 35,000. For example right now it is about 360,000 is what is there capacity, one would see it going to 500,000 at the end of the year.

Mr. Nishant Vyass - ICICI Securities

In the Pant Nagar plant?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

In the Pant Nagar plant would be going up from existing about 1.2mn, one could see going up to about 1.8mn, this is all depending on whether the demand persists and continues the way it is.

Mr. Nishant Vyass - ICICI Securities

When we look at tax provision for this quarter at a higher level on sequential basis, though even we have a higher capacity from the Pant Nagar plant which is the tax free zone. So could you put some light on that?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

Tax rate will be approximately 28% for the whole year. The fourth quarter I have not changed my tax rate for the fourth quarter but if you look at the full year last year it was 29.3. The fourth quarter would also come in and you are really fine tuned your tax positions to match with the actual numbers so that is why fourth quarter will be a variation of 0.3 or 0.4%. From 28.5% that we are seeing as a tax rate for the first quarter I would say that on a whole year basis, you will see it going on to 28%. The reason why tax rate does not substantially go down because of the Pantnagar production is because the highly profitable products including exports come from the non-Pantnagar zone. So all 3 wheelers come from Waluj, all exports come from Waluj and the Chakan and the Chakan produces all the Pulsars.

Mr. Nishant Vyass - ICICI Securities

Sir another question. We have our target of increasing our sales network from the dealer's perspective to 183 for FY11. What is the position on that?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

I don't have that source, where did you get that source? From where did this 183 figure come from?

Mr. Nishant Vyass - ICICI Securities

Sir it was previous Q4 numbers which were given.

Mr. Kevin Dsa - President (Finance), Bajaj Auto

What was given?

Mr. Nishant Vyass - ICICI Securities

From FY10 from 152, investing dealer's network we were expecting to increase by 183.

Mr. Kevin Dsa - President (Finance), Bajaj Auto

I don't recollect. I don't even know that 152 we are already having 480 dealers.

Mr. Nishant Vyass - ICICI Securities

That would be a total number of dealers. Could we get overall ballpark on the realisation front of Discover family?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

No, I would not be able to share that.

Mr. Nishant Vyass - ICICI Securities

Not even in the executive segment?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

No, no.

Mr. Nishant Vyass - ICICI Securities

Sir on the CAPEX front what we have declared yesterday, the

Rs. 500 crores investment how much of that would be incurred in FY11?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

I don't have a figure, MD has mentioned there is an approximate, a question was raised how much would you be spending for the 4 wheeler platform project and he gave an indicated figure of Rs. 500 crores. I would say that for the current year I have given a figure of Rs. 225 to Rs. 250 crores which is for all including a bit for the 4 wheeler platform.

Mr. Nishant Vyass - ICICI Securities

Sir, on the domestic market side we have the total sales number. Could we have a ballpark figure from the rural segment and the urban segment?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

No one can give that number, anyone who is quoting those numbers, quoting general numbers and there is no real database to capture what is really rural and urban, that is my basic belief.

Mr. Nishant Vyass - ICICI Securities

Could we say that like tier III city, have you seen any demand picked up from those sides?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

We have seen Discover 100 for example which has been launched, the growth has taken place quite uniformly across all the countries, all these dealerships. So when I talk to the dealer in Delhi or whether I talk to the dealer in Nagar or Chiplooon or something all of them are by and large showing the same growth pattern.

Mr. Nishant Vyass - ICICI Securities

Another thing on the salary hikes that we have incurred in this quarter, any light was what was it like?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

In the range of 12%.

Mr. Nishant Vyass - ICICI Securities

Was it like the first quarter phenomena or going forward we see it again?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

No, no, in the first quarter what happens is you tend to give the annual LTAs, annual allowances which are paid in April and charge it off. But that is there also in Q1 of last year. So if you see that Rs.112crores that is there last year, if you add another 12% to the increment that you are giving it comes closer to the figures of Rs.126crores that I mentioned. Again in Rs.112crores there is a certain segment of the daily dated workmen who get dearness allowance which is dependant on inflation. Dearness allowance has gone up significantly with the increase in inflation and that is why there is an impact of salary base that is taking place. Going forward the Rs. 126 crores in Q2 and Q3, Q4 barring unforeseen, barring one time expenses should come down by Rs. 12 crores.

Mr. Nishant Vyass - ICICI Securities

On the exports front we have seen there has been significant inroads via Boxer in the African continent. Could we get a view the company has tried to build a strong brand for itself, brand building exercise has been the main focus. So what was it like, how have we increased the sales network on that front or how have we increased the brand itself on a strategic perspective?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

It is a long question, we have to take it offline separately.

Mr. Nishant Vyass - ICICI Securities

Ok sir, no problem, I will call you later. Thank you.

Moderator - Rochelle

Thank you Mr. Vyass.

Our next question is from the line of Mr. Mahantesh Sabarad from Fortune Equity Brokers. Please go ahead.

Mr. Mahantesh Sabarad - Fortune Equity Brokers

Kevin this is Mahantesh.

Mr. Kevin Dsa - President (Finance), Bajaj Auto

Hi Mahantesh.

Mr. Mahantesh Sabarad - Fortune Equity Brokers

Good afternoon and very good numbers. Just on a macro feel I just want to understand that currently the motorcycle penetration within India, let's say the 2 wheeler penetration within India is close to 100 per 1000 and if I exclude the children, the old people, the ladies, the penetration is more like 400-500 per 1000. Is there a saturation level that has been seen on the 2 wheeler or ownership?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

Honestly I will tell you I don't really know the answer to this question. I don't even know who is giving penetration numbers; it all comes from the database which I don't know. So in the penetration have they taken the Chetak, have they taken Lambrettas, I don't know that figure.

Mr. Mahantesh Sabarad - Fortune Equity Brokers

It is purely if you look at industry data provided for the last 10 odd years so for example same story applies in terms of look at the population growth, growth in number of people coming in and what is the need? For example...

Mr. Kevin Dsa - President (Finance), Bajaj Auto

.... if you look at the working women, you look at the rural part of the business there was a huge untapped potential and therefore for me atleast for next 4-5 years one would see a growth rate of about 12-14% seems to be reasonable.

Mr. Mahantesh Sabarad - Fortune Equity Brokers

Are you seeing multiple ownership by the same individual in motorcycle?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

All I am talking of is very anecdotal now, very anecdotal so let it not be this thing. Today for example in the motorcycle industry who talks of secondhand price now? Income levels have gone up so much, my son has got a vehicle, he wants to substitute it what would I do? The secondhand vehicle is there after the scooter which my daughters use, I will just give it up to the maid servant child and say take it, don't bother. So I really don't have an answer to that but I

am only trying to say that Rs. 45,000 to a lot of people now is really he can afford to buy two vehicles for children and just goes down the chain in that sense.

Mr. Mahantesh Sabarad - Fortune Equity Brokers

My next question that is related, why as an industry between you, Hero Honda and TVS Motors, why don't you just raise the prices of motorcycles and enjoy the good times?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

That is profiteering, that is not business and we don't believe we will do that.

Mr. Mahantesh Sabarad - Fortune Equity Brokers

Very specific question, just one question I will ask you have a dominant presence or a good presence in this Colombian market where I notice that this Splendour NXG also sells and you have Discover 135cc but the Discover 135cc apparently is at a discount price to competition. Maybe I am wrong but my essential question is when you look at exports in certain markets, are you taking a low cost or low price positioning levels in relation to competition?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

No, we are actually as a strategy what we do is we offer our products at same prices as Honda, Yamaha, Suzuki but we offer a higher end bike at that price.

Mr. Mahantesh Sabarad - Fortune Equity Brokers

Just on the CAPEX you mentioned that on the car project the guidance is Rs. 500 crores kind of spend but then you also said that it is related to platform development. So is there an extra cost involved to put up the manufacturer's plant over and above Rs. 500 crores?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

No, let me put it in this way. To be fair to Rajiv, Rajiv has given the figure at AGM of Rs. 500 crores that is sacrosanct. The shareholder query came in and the response has been given. Have we sat on the drawing board and worked out the full budget, plans etc I don't think so. So this is more of a guidance.

Mr. Mahantesh Sabarad - Fortune Equity Brokers

So manufacturing plant is something that will come up later depending on actual project cost?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

No, at the same time Rajiv has very correctly mentioned that the use of manufacturing plant in Aurangabad. So in Aurangabad you have a huge amount of manufacturing facilities and like I mentioned in my opening remark the platform will be used for making CVs, it will be made for making passenger vehicles so that could be used from existing platform itself and manufacturing facility at Waluj.

Mr. Mahantesh Sabarad - Fortune Equity Brokers

Why not Chakan? 2 locations within Chakan, one which you have put the use which is Discover and Pulsar manufacturing. You have another unit in Chakan space in Chakan...

Mr. Kevin Desa - President (Finance), Bajaj Auto

No, we have purchased land in Chakan, we have paid the amount, everything has been paid but we wanted more space but this just the land which is there in our name right now.

Mr. Mahantesh Sabarad - Fortune Equity Brokers

You may not use that to make the future 4 wheelers but use the Waluj plant for future 4 wheelers?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

In the initial stage what we normally do is all prototype manufacturing etc. starts from the existing plant and then we can expand it going to Chakan plant.

Mr. Mahantesh Sabarad - Fortune Equity Brokers

Thank you very much Kevin for answering my questions.

Mr. Kevin Dsa - President (Finance), Bajaj Auto

Thank you.

Moderator - Rochelle

Thank you.

Mr. Kevin Desa - President (Finance), Bajaj Auto

We need to close in another 2 questions please.

Moderator - Rochelle

Sure sir. Due to time constraints we will now take the last 2 questions.

Our next question is from the line of Mr. Sahil Kedia from Enam Securities. Participants are please requested to limit their questions.

Mr. Sahil Kedia - Enam Securities

Thanks Kevin, just a quick question, most of my questions have been answered. Just how many product launches/variants are we likely to launch this year?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

No major launches in this year because all our products are relatively fresh so to that extent whether it is Discover 150cc which is 2 months old or the Discover 100cc, I don't think there will be launches. R&D has definitely worked out, R&D has a whole range of products in the pipeline but the launch of it will not probably happen in the current year because of the current success of the existing products.

Mr. Sahil Kedia - Enam Securities

So the product mix / range to that extent is set for the year?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

I will say yes to that.

Mr. Sahil Kedia - Enam Securities

Ok fine. That's it. Thank you so much.

Moderator - Rochelle

Thank you Mr. Kedia. Ladies and gentlemen due to time constraints we will now take the last question which is from the line of

Mr. Chirag Shah - Emkay Global

Good afternoon Kevin.

Mr. Kevin Dsa - President (Finance), Bajaj Auto

Good afternoon.

Mr. Chirag Shah - Emkay Global

Sir just one question, just to understand what are general stress points that you would look at to understand the demand is now actually consolidating in terms of absolute amount not in terms of growth because growth may be deceptive at times because of the base effect. So how internally do you assess this stress points that you have, or initial stress points to indicate demand can now stabilise for 6-9 months and then again we go for the next round of takeoff kind of a thing?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

My answer to that I won't like to give any specific answer. The thing is that since today most of the investments has been done by the vendors, very conscious of the investments made by the vendors. So we would not like to get into the situation where we simply go by let's say I have been rude to the marketing team saying that marketing focus and get a commitment to how the vendor should invest. We will be absolutely sure of the demand and only then the investment guidance will be given to the vendors. To that extent we are willing to sort of sacrifice a little bit in the short term of a loss of what I would call sale rather than getting into situation of being overly optimistic, the vendor is into trouble.

Because the issue that I see it at my personal level, as a personal individual I am talking we will end up in a situation where you get excess capacity because someone has misread the industry. And then because the capacity there and because you have to compensate to the vendors etc. then you churn demand and then you get into price cut, price move, all those situations, generate demand to meet the capacity. I would rather say as at company what we will follow is to make sure that the demand is generally there, invest accordingly and our investment capacity even if they get

1-2 months behind the demand it is ok rather than landing into a situation where you have excess capacity, vendors in problem and then company forced to offer discount on schemes in order to fill up the pipeline.

Mr. Chirag Shah - Emkay Global

Sir, just to take it ahead, you indicated that vendor supply is a problem and not OE supply is the problem?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

Both.

I am talking about Bajaj Auto manufacturing capability will not be affected but it is OE coming by way of bearings, OE in terms of tyre tube, that is an issue. At the same time ancillary vendors were dependent, not only on tier I and tier II vendors but even tier III person.

Mr. Chirag Shah - Emkay Global

So is it that last round of capacity constraint or current capacity constraint is different from what you were facing earlier. That was another follow-up question I had because again we are facing constraints across, everybody, you talk to any automobile company or any sector, any segment is operating, everyone in some way facing a sort of constraint. The under investment was a problem or the over investment and follow-up is the problem?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

No, it was the question of situation, when you are talking of constraints you are talking of inbound logistics and you are talking about outbound logistics. When you are talking of outbound logistics for example where are the transporters with the trucks. So today for example if you talk to Hero Honda, you talk to TVS and Bajaj, another biggest bottleneck is transportation of trucks, so that's one issue. So while it may not be production related it is a question of delivery logistically. Same in the inward side, inward side for example many may not have believed that this is the capacity. A lot of people have taken on contract so it is a tough call.

Mr. Chirag Shah - Emkay Global

But this keeping is getting rectified so now you are saying in next one year vendors will be ready with a normal kind of demand scenario?

Mr. Kevin Dsa - President (Finance), Bajaj Auto

It is all the question of, most of us plan that they have 100% capacity but believe that they are using at 80%. So the true test comes in when really 100% demand that comes in and many of the times the vendors fail.

Mr. Chirag Shah - Emkay Global

Ok. Great. Thank you.

Mr. Kevin Dsa - President (Finance), Bajaj Auto

Thanks.

Moderator - Rochelle

Thank you Mr. Shah. Ladies and gentlemen that was the last question for today and I will now hand the conference over to Mr. Surjit Arora from Prabhudas Lilladher to add closing comments.

Mr. Surjit Arora - Prabhudas Lilladher

I would like to take this opportunity on behalf of PL to thank Mr. Kevin Dsa for taking out his time for this call. Thank you Sir and thank you all the participants and have a nice day.

Mr. Kevin Desa - President (Finance), Bajaj Auto

Thank you.

Moderator - Rochelle

Thank you Mr. Arora, thank you Mr. Dsa. Ladies and gentlemen on behalf of Prabhudas Lilladher that concludes this conference call. Thank you for joining us and you may now disconnect your lines. Thank you.

END.

