

Q2 2017 Bajaj Auto Ltd Earnings Call

Pune Oct 28, Bajaj Auto Ltd earnings conference call or presentation Friday, October 28, 2016 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

* Jay Kale

Elara Capital - Analyst

* Yogesh Aggarwal

HSBC - Analyst

* Ashish Nigam

Axis Capital - Analyst

* Binay Singh

Morgan Stanley - Analyst

* Chirag Shah

Edelweiss - Analyst

* Aryn Pirani

Deutsche Bank - Analyst

* Sonal Gupta

UBS Securities - Analyst

* Pramod Kumar

Goldman Sachs - Analyst

* Kapil Singh

Nomura Securities - Analyst

* Viraj Kacharia

Securities Investment Management - Analyst

* Pramod Amthe

CIMB - Analyst

* Raghu Nandan

Quant Capital - Analyst

* Joseph George

IIFL - Analyst

* Mithun Soni

GeeCee Investments - Analyst

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Presentation

Operator [1]

Ladies and gentlemen, good day and welcome to the Bajaj Auto Q2 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 post conclusion of the introduction. (Operator Instructions)

I now hand the conference over to Mr. Jinesh Gandhi from Motilal Oswal. Thank you and over to you Mr. Gandhi.

Jinesh Gandhi, Motilal Oswal Securities - Analyst [2]

Thank you Melissa. Good evening everyone. On behalf of Motilal Oswal Securities, I would like to welcome you all to second quarter FY 2017 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 the management for taking time out for the call.

As usual, we will start directly with Q&A. Melissa, can we start with Q&A session, please?

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Questions and Answers

Operator [1]

Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session. (Operator Instructions) Jay Kale, Elara Capital.

Jay Kale, Elara Capital - Analyst [2]

Yes, thanks for taking my question and congratulations on a good set of number sir, and season greetings to you. Sir, my first question was regarding the domestic volumes. Volume we had at the last quarter, we had targeted at 2.6 million kind of a domestic volume for FY 2017. Now, it is festive at the fag-end, if you can just throw some light on how the festive growth has been and what would be your revised target for FY 2017?

Kevin D'Sa, Bajaj Auto Limited - President - Finance & CFO [3]

Well, I'm not giving a forecast of the revised numbers any longer, because I just don't have a visibility of the next six months. All I can definitely share with you is that we ended this period at about the domestic motorcycles for the six-months at about 1.1 million. I'm confident of exceeding this significantly in H2, but as far as the actual number that we are targeting is very difficult to take a call at this stage. Two factors I'd like to add to this.

One is the festive season, in my view, has not been exceedingly good for the industry. It has been average, I would say, is a single-digit growth for the industry, if I'm comparing festive-to-festive. But in my case going forward, we are coming out with a number of new production launches. In these platforms, there will be a new product coming in. There'll be an all new VS400 that will come in. And the Pulsar family will also be getting completely refreshed and coming out in the fourth quarter.

So, I don't want to hazard a guess at this stage what is my end goal at the end of this year, but all I'll say, is I'll be extremely comfortable to say to you that the 1.1 million that we've done in the first half, we'll be able to exceed it in the second half.

Jay Kale, Elara Capital - Analyst [4]

Okay. Sir, my second question was regarding the VS400, there was some comments that the target volumes of around 10,000 units. If you can just give us some clarity and in the sense that, is the platform similar to Pulsar and how would the capacity fungibility be for those models and we are also hearing out some variance of V15. If you can just throw some light on the upcoming model launches apart from the Pulsar refreshes, what kind of new launches are you expecting?

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

Whatever you heard is right. The V15 will come out with another brother, that'll come out in the latter part of this quarter. That's in Q3. The VS400 in whatever way its form because right now, it has been talked about in a different band, sometimes they are saying this is Pulsar. So, I won't like to destroy the mystery. So, let the mystery remain, but that'll come out by January first week. And in terms of numbers are concerned, my marketing head is pretty comfortable in estimating an average sale of about 7,000 to 8,000 numbers of this high-end bike, highly prized, highly profitable about 7,000 to 10,000 a month.

Jay Kale, Elara Capital - Analyst [6]

Okay. And this you are saying is in Jan 2017 right, not November?

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

Jan 2017. The V will come in earlier, but VS400 as I call it, will come in Jan 2017.

Jay Kale, Elara Capital - Analyst [8]

Second question was regarding the raw material prices that we have seen. What is the outlook for the third quarter and how do you see that panning out because we have seen certain manufacturers talking of increase in third quarter. So, can you just throw some light on that?

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

I would say that third quarter will be fairly benign compared to the second quarter. I have no view of the fourth quarter. Fourth quarter rationally and normally should go up a little bit, but it will not be steep, it'll be a gradual increase. So, third quarter, I feel it will be benign.

Jay Kale, Elara Capital - Analyst [10]

And the last question was regarding the exports revenue and your spare parts revenue for the quarter.

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

As far as the export revenue is concerned, we have received a same exchange rate of INR67 as compared to the first quarter. And in dollar terms, I guess \$286 million, we have received \$285 million. Total exports, including spare parts is INR2,057 crores versus INR2,109 crores in quarter two. In auto space in domestic and exports put together, compared to quarter one, we have grown of almost INR100 crores, and that trend will continue. So far as total spare parts in quarter two has been INR741 crores. For H1, it is INR1,378 crores, which is up about 16% compared to INR1,188 crores that we declared of the first half of last year.

Operator [12]

Yogesh Aggarwal, HSBC.

Yogesh Aggarwal, HSBC - Analyst [13]

Sir, one question on your exports, you have had extraordinary margin performance in the recent past despite all those significant headwinds, both currency in export markets and the volume. So, can you reflect back on some of the drivers, was it the cost control, was it largely you passed on the currency headwind. So, what helped you maintain margins?

Kevin D'Sa, Bajaj Auto Limited - President - Finance & CFO [14]

It's two things. One, let us say, for example, in the domestic market, if you see that the motorcycles between quarter one and quarter two, motorcycles domestic, we did 548,000 versus 579,000. While these numbers may not be large, the success of the Platina, which has taken over the new space of comfort, has done exceedingly well. So, between CT and Platina, the mix has gone very much in favor of Platina, and that helped me in the margins.

The second part over here was the Pulsar sales has gone up significantly between quarter one and quarter two. So Pulsar in the quarter one, we did about 56,000 numbers; in quarter two, we did 71,000 numbers. Third, is in exports, while the export numbers by and large have been same, the CV business if you see, we did approximately about 47,000 CVs in quarter one, we have done 60,000 CVs in quarter two.

And lastly, the highly profitable spare parts business between quarter one and quarter two, we have sold out an additional INR100 crores. So, if you look at total spare sales domestic and exports, quarter one we did INR637 crores; in quarter two, we have done INR741crores. So, the mix within the production -- within the segments, has been extremely favorable for us.

Yogesh Aggarwal, HSBC - Analyst [15]

Okay, great. So, will that be fair to assume that eventually when exports start to pick up, it will be even more margin accretive to the overall business?

Kevin D'Sa, Bajaj Auto Limited - President - Finance & CFO [16]

I won't like to make a comment to that, but yes, if you watch my NDTV thing, and this is what I've mentioned that this marginal 22.3% is despite the fact that the highly profitable export business is still facing headwinds. And I also say and as I said today is, in Q4, it'll be the Pulsar family that will generate incremental volumes in the domestic market. All this should logically be accretive to the margins. So, for me, to give a statement in terms of what I see the margins for the next half, it'll be in excess of 21%.

Operator [17]

Ashish Nigam, Axis Capital.

Ashish Nigam, Axis Capital - Analyst [18]

So, just on exports, if you can just talk about your current outlook and if there is any change, we need to adopt in terms of pricing strategy?

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

No, as far as the exports are concerned, we have given a guidance of 1.6 million vehicles. We should be very close to hitting 1.6 million vehicles. If you see at the peak, we were selling 150,000 vehicles per month, which was made up of about 25,000 three-wheelers and 120,000 to 125,000 number of motorcycles. Where we stand today is, we're at about 22,000 to 23,000 three wheelers, just 2,000 to 3,000 short of our peak. And as far as motorcycle is concerned [as against] 125,000, we are at 100,000.

For the next six months, I see the exports being a little higher than what we saw in the first six months, because there is not major improvements in Nigeria and in Egypt also, they are facing certain currency issues with devaluation. The way I look at it is, at least for the next six months, exports will continue to face the headwinds and I would say that we should end the year somewhere near about 1.55 million to 1.6 million number of vehicles as such. Beyond six months, is anybody's guess.

Ashish Nigam, Axis Capital - Analyst [20]

Fair point. I'm just wondering in terms of any -- so, you are not changing pricing strategy as such because --?

Kevin D'Sa, Bajaj Auto Limited - President - Finance & CFO [21]

No. See there are two issues over here. Changing the pricing strategy will be meaningful if the market is a very price sensitive in that sense and when there is availability of dollars, et cetera. But today, for example, the way the devaluation is taking place in Nigeria, the Naira in the black market is almost about -- unofficial market is about 450. Normal price collection at our end is going to create a sale over there. There is no currency available.

The second is, for example, in Egypt. Egypt has official rate of about EGP8 to EGP9 to the dollar. Today, it is at about EGP15 to EGP16 to the dollar. So, we would not be able to do any price adjustment or correction in order to boost the exports in these markets. But, yes, a lot of effort is going into building up exports in new markets, in new territories. So, I would say, every month incremental exports of about 3,000 to 4,000 numbers is coming from introduction of vehicles in the new countries.

Ashish Nigam, Axis Capital - Analyst [22]

Just also on the domestic side, can you talk about the brand creation that we're taking on, because MD had spoken recently that, we plan to launch a bike or a brand or a new brand that's taking on the Royal Enfield head on. So, is that an extension of the V brand or is a new brand that we are launching?

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

The marketing part and this brand strategy and stories, I will leave it to the MD or Eric, at some point they are to unveil, unfair of me to say anything much on this.

Operator [24]

Binay Singh, Morgan Stanley.

Binay Singh, Morgan Stanley - Analyst [25]

Congratulations, a good set of numbers, given the tough environment you face. My first question is on exports, everyone is talking a lot about ForEx, but if you see the currency devaluation in these countries, it should actually lead to demand destruction also with inflation running high.

Kevin D'Sa, Bajaj Auto Limited - President - Finance & CFO [26]

Correct.

Binay Singh, Morgan Stanley - Analyst [27]

So, do you think that like -- is demand, because till now, we don't know the demand angle, because it's just so focused on ForEx. But are you guys getting that sense that even if ForEx was to get available, the demand itself may not be the same levels that we saw?

Kevin D'Sa, Bajaj Auto Limited - President - Finance & CFO [28]

This inflation price, this escalation, it will be difficult, Binay.

Binay Singh, Morgan Stanley - Analyst [29]

Okay.

Kevin D'Sa, Bajaj Auto Limited - President - Finance & CFO [30]

Because you see, Naira at 450, and even the currency (inaudible) Naira at 450, it becomes exorbitantly costly for the customer to buy it and now understand. When we talk Naira at 450, it's not that he's buying motorcycles, there are medicines, there are other imports into Nigeria, et cetera. So, for him, the inflation really hurts very badly. So, therefore, motorcycle may be a later priority as compared to his normal daily essentials.

Binay Singh, Morgan Stanley - Analyst [31]

So, in this context, like yesterday TVS was mentioning, how they intend to gain market share in exports. So, do you think that there is a risk that this very high margin business could see some bit of margins coming down?

Kevin D'Sa, Bajaj Auto Limited - President - Finance & CFO [32]

I really do not worry about that Binay, because margins coming down, et cetera is, let's say, my margins, and I'm being very candid, is the same in quarter three and quarter four, and quarter one and quarter two, despite the fall in export. So, if I was to look at the first half of last year and if I look at the quarter in the current year, my export margins by and large has changed by about 1% or 2% only. Is not really going to hurt margins in that sense.

Binay Singh, Morgan Stanley - Analyst [33]

Right. So, I think it's only if someone focuses on market share, then we could see that?

Kevin D'Sa, Bajaj Auto Limited - President - Finance & CFO [34]

And then again you see, it also depends on which market you're talking about. You were talking about very low entries product segment like the Nigerian market where we sell the Boxers. And then you want to play a price game, you hardly will get any market share and margins. But for us, a lot of the sales of exports is coming from the Pulsar family, from the Discover family, from the CT family, which gives us a significant margin or the three-wheeler family.

Binay Singh, Morgan Stanley - Analyst [35]

Right. So, that's a --

Kevin D'Sa, Bajaj Auto Limited - President - Finance & CFO [36]

So, I don't -- I mean, correct me if I'm wrong, but I don't think TVS is talking of pushing the other products at a price point and say Colombia, they want to go into there or Indonesia.

Binay Singh, Morgan Stanley - Analyst [37]

Right. They talked more in general that they want to gain market share.

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

Exactly, so that general will be -- probably be in the African markets where I don't think there are significant markets margins really play around with.

Binay Singh, Morgan Stanley - Analyst [39]

Okay. And secondly, Kevin, like the festive season has been a little softer and some of the big competitors are sitting with lot of inventory. Do you think the cost of customer acquisition could go up in this quarter or do you think things are pretty much at manageable level at industry level, not so much Bajaj?

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

As far as -- you are talking of stocks in the system or are you talking of the acquisition cost?

Binay Singh, Morgan Stanley - Analyst [41]

Both stocks in the system. Because it is --.

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

Stocks in the system, I can tell you of Bajaj, I won't talk of competition, is that in the month of September, we had built approximately about 40,000 to 45,000 numbers, more than what was retailed. That will get liquidated because in this month whatever we build, the retails will be at least about 45,000 to 50,000 numbers higher than that.

So, we will get into the post-Diwali festival with back to the normal 30-day stock. I'm not too sure whether the same has happened to the competition because as whatever market information is seen on a festive-to-festive comparison, whether it is Dussehra and post Dussehra one week or so, the industry growth is in single-digits.

Now what is the results in, there are two, we should do it. One is competition correcting the billing that takes place in October, November, December, in which case, things should pan out well or whether they still want to maintain the high number rate and offer that in discounts and acquisition costs. That's the -- I don't know what the strategy the industry will follow. But for us, we are very clear that we don't have to do this, because we are pushing it to the product launches of the V, the product launches of the Pulsar family and again with the growth of the Platina. So, for us, acquisition costs will not come up.

Binay Singh, Morgan Stanley - Analyst [43]

I'll come back in the queue. Very clear. Thanks a lot Kevin.

Operator [44]

Chirag Shah, Edelweiss.

Chirag Shah, Edelweiss - Analyst [45]

Kevin, on three wheeler, if you can shed some light what's happening on the domestic side and on the export side as well, any new geographies or territories opening up?

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

Nothing much Chirag. We, like I said three wheelers is doing well. We are averaging about 24,000 numbers a month, which it takes us to the target figure of 300,000, and again. So, that's on track for the domestic part and as far as the exports part is concerned, things inching up. And like I said probably we are already hitting now about 22,000 to 23,000 numbers of three wheelers every month, which is very close to our average of about 25,000 to 26,000 numbers that we were achieving the positive, that is okay whether in the domestic or in the export market.

Chirag Shah, Edelweiss - Analyst [47]

But are we still exporting to same geography in exports or even in three wheelers new geographies have been added? And where are we --

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

(multiple speakers) new geographies have been added and that's why I'm saying that whatever the fall in Nigeria and to some extent the fall in Egypt because the currency is being made up by the other new market has come in. (multiple speakers) there is a fall in Nigeria for about 20,000 to 25,000 numbers too hard to be made up immediately with new countries.

Chirag Shah, Edelweiss - Analyst [49]

Sure, it was a definitely big market also for us, fair point. And, how do you look at three wheelers next year. This 24K average, can it be sustained or new permits are coming up? Or --

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

No, as far as 2017, 2018 is concerned, I won't like to say anything at this stage. If you ask me, I don't see any reason why the industry should not go by 5% and with me having about 45% of the market share, why shouldn't not be equal to a higher than the market share. I feel very comfortable because primarily I will then start or establish my cargo segment.

You see, if you look at it, last year I was not present in the cargo segment. So, I came into the cargo segment in the month of February. We should be doing about close to say of 17,000 cargo vehicles in the whole year and from there onwards I should be able to grow. So, for me the growth opportunity is not only in the clean-fuel vehicles, but it gives me an opportunity for the cargo vehicles, because my base also is low.

Chirag Shah, Edelweiss - Analyst [51]

Fair point. And on the diesel, in general, what kind of market share you would be right now?

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

I'm not pretty sure, but I believe it's about 33% or so.

Chirag Shah, Edelweiss - Analyst [53]

It's about 33% for you?

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

I believe so.

Chirag Shah, Edelweiss - Analyst [55]

Fair point. And even just within last question, on the other income side (multiple speakers).

Kevin D'Sa, Bajaj Auto Limited - President - Finance & CFO [56]

Diesel segment is approximately about what I'm saying is right. It's in the small diesel carriers, we are at 69%; in the large diesel carrier, at 24%. So, I think on an average, my 35%, 36% should workout right.

Chirag Shah, Edelweiss - Analyst [57]

Fair point. On this treasury income, so we have not seen any major revaluation or mark-to-market as per the new accounting. So, how should we look at.

Kevin D'Sa, Bajaj Auto Limited - President - Finance & CFO [58]

(multiple speakers) If you see my treasury income, if you see the treasury income has gone up from INR220 crores in Q1 to INR283 crores in Q2.

Chirag Shah, Edelweiss - Analyst [59]

Yes.

Kevin D'Sa, Bajaj Auto Limited - President - Finance & CFO [60]

(multiple speakers).

Chirag Shah, Edelweiss - Analyst [61]

Yes, there'll be dividend payout, so the cash (multiple speakers).

Kevin D'Sa, Bajaj Auto Limited - President - Finance & CFO [62]

No, there's no dividend payout coming at all in this. So, the INR220 crores to INR283 crores, I think, is includes an F&P portion of, which was there INR172 crores going to INR217 crores. This is a bit of an MTM markup, which because of the RBI dropping the rates 0.25%, I get a bit of a bump up in the MTMs.

Chirag Shah, Edelweiss - Analyst [63]

Fair point. This was helpful. And tax rate at around 28% is a reasonable assumption, right?

Kevin D'Sa, Bajaj Auto Limited - President - Finance & CFO [64]

Yes, it is.

Operator [65]

Binay Singh, Morgan Stanley.

Binay Singh, Morgan Stanley - Analyst [66]

My question is on the new launches that you talked about, and you mentioned that the volumes will be stronger versus what you've done in the first half. Could you give us a little more detail because we understand that the Pulsar 400 or whatever the spike is that, that one will be 7,000 to 8,000. But the Pulsar upgrade, do you think that's a sizable upgrade because Pulsar volume has been pretty flattish.

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

Very much.

Binay Singh, Morgan Stanley - Analyst [68]

Though, the entire Pulsar family is getting a refresh.

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

Yes.

Binay Singh, Morgan Stanley - Analyst [70]

Okay. And do you think is that one of the reasons that we've seen a lot of like Pulsar sales haven't grown while all the other brands have done quite well this year.

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

Actually you see, I just mentioned to you that the Pulsar sales within quarter one and quarter two have actually gone up. For Pulsar sales in quarter one was 56,000, it has

gone up to 71,000 in quarter two. And this trend will increase further as you get into the fourth quarter.

Binay Singh, Morgan Stanley - Analyst [72]

Right. I was actually meaning like last year also you did around the same volumes, so on a Y-on-Y, it was almost flattish.

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

But then you see, you have to factor in a little bit of the growth in the Avenger as well no? The Avenger like-to-like comparison if you are doing, Avenger which was doing 3000 at that time is averaging about 17,000 now.

Binay Singh, Morgan Stanley - Analyst [74]

Which actually brings me to the next question. If you look at the 400 cc bike at 7,000, the volumes look a little aggressive right? Because your Avenger, the bigger one does around 7,000 units or so, which is 220 cc. So, in that sense, I think it seems like quite a sizable volume to target from that -- at that price point?

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

See the only way I would I answer this question is simply saying that if someone is willing to pay INR160,000 for Bullet or for the Royal Enfield bike and Royal Enfield sells 50,000 numbers a month without any problem, I think price is not an issue.

Binay Singh, Morgan Stanley - Analyst [76]

Okay. Its product positioning and --.

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

So, the product positioning is different. It's great, it is a super bike. When you look at it, it is just a wow-wow bike. And to that extent, the people are paying that sort of money for 350 cc bike at INR160,000 and just selling 55,000 to 60,000 with still a VT, I presume. I don't see any reason why 8,000 to 10,000 numbers should not be achievable.

Binay Singh, Morgan Stanley - Analyst [78]

And the third big launch will be another one in the V family, which is a bigger V bike.

Kevin D'Sa, Bajaj Auto Limited - President - Finance & CFO [79]

I won't say bigger, smaller, I'm saying it to be a brother to the V.

Binay Singh, Morgan Stanley - Analyst [80]

Great Kevin, we will wait and watch out how -- as the products pan out.

Operator [81]

Amyr Pirani, Deutsche Bank.

Amyr Pirani, Deutsche Bank - Analyst [82]

My first question was on the exports, you mentioned that you are adding incremental volumes from newer markets. So, these markets would be in the similar geographies like Africa or are they -- I mean newer geographies that we are talking about?

Kevin D'Sa, Bajaj Auto Limited - President - Finance & CFO [83]

Many of them are new, primarily it will be around Africa, but for example, Turkey comes in, you've got vehicle going to Russia right now, you've got Afghanistan. All these markets are adding up, you got Myanmar coming in. All good markets.

Amyr Pirani, Deutsche Bank - Analyst [84]

So, these are not markets which have the similar issues that you are having in your existing countries basically.

Kevin D'Sa, Bajaj Auto Limited - President - Finance & CFO [85]

No.

Amyr Pirani, Deutsche Bank - Analyst [86]

And secondly just a housekeeping question, your other expenses have actually declined on a Y-o-Y basis. I mean, is there some timing issue here or is there any cost cutting that you have managed to do?

Kevin D'Sa, Bajaj Auto Limited - President - Finance & CFO [87]

Well, if you're saying other expense has come down from INR448 crore to INR470 crore, right? Where are the other expenses come off?

Amyr Pirani, Deutsche Bank - Analyst [88]

No sir, from INR471 crore to INR448 crore on a Y-o-Y basis.

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

Well, that is some expense because in the first half, you normally land up in payment of certain annual charges like the insurance, rates, taxes, et cetera, which (inaudible) charges off on a whole year basis.

Operator [90]

Sonal Gupta, UBS Securities.

Sonal Gupta, UBS Securities - Analyst [91]

Sir, just wanted to -- one was, what are the price increases we've taken in this quarter?

Kevin D'Sa, Bajaj Auto Limited - President - Finance & CFO [92]

I think about INR500 or so by and large in the start of the quarter for two-wheelers and about INR1000 and odd for a three-wheeler, but that's at the start of the quarter.

Sonal Gupta, UBS Securities - Analyst [93]

This is from October you are saying, is it?

Kevin D'Sa, Bajaj Auto Limited - President - Finance & CFO [94]

No, from around July, August.

Sonal Gupta, UBS Securities - Analyst [95]

July, right. And anything in Q3.

Kevin D'Sa, Bajaj Auto Limited - President - Finance & CFO [96]

Nothing.

Sonal Gupta, UBS Securities - Analyst [97]

And just on -- could you tell us, I mean how much is, in within spare parts, how much is domestic spare parts?

Kevin D'Sa, Bajaj Auto Limited - President - Finance & CFO [98]

Domestic spare parts would probably -- well, you're talking in terms of, for the quarter or for the whole year?

Sonal Gupta, UBS Securities - Analyst [99]

For the quarter.

Kevin D'Sa, Bajaj Auto Limited - President - Finance & CFO [100]

For the six months or for the year?

Sonal Gupta, UBS Securities - Analyst [101]

For the quarter.

Kevin D'Sa, Bajaj Auto Limited - President - Finance & CFO [102]

For the quarter, it'll about INR550 crores domestic, exports would be about INR195 crores.

Sonal Gupta, UBS Securities - Analyst [103]

Okay. And Kevin, just lastly in terms of the financing trends, have we seen any change for you, I mean is there financing (multiple speakers).

Kevin D'Sa, Bajaj Auto Limited - President - Finance & CFO [104]

Honestly, I had not tracked it, it is not tracked, but I do know that BFL for example, the penetration for Bajaj Financing has gone up, but if you're talking of overall financing, et cetera, I've really not tracked whether it has gone up or down. I believe, logically, it should have gone up.

Sonal Gupta, UBS Securities - Analyst [105]

Right. And just lastly, in terms of any trends that you broadly see in the market, in terms of, I mean premiumization within the motorcycle segment because all your emphasis now

seems to be more on the premium segment. So, do we see that there's going to be significant upgrade of the market over the next few years, I mean how are you looking at it?

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

No, I very clearly see people upgrading. So, whether it is our family or whether you talk in terms of the competition, we're seeing people moving up the value chain, people willing to pay more. People, for example, kick-start versions of most of the products across the industry don't do very well. People have moved towards electric-starts. So, 100% the value chain, the spends per vehicle is going up.

Sonal Gupta, UBS Securities - Analyst [107]

Right. And even you would say that, even electric starts, even for the entry level (multiple speakers).

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

Even for the entry level. Even for the -- very much so for the entry level.

Sonal Gupta, UBS Securities - Analyst [109]

So, even there you have a very high (multiple speakers).

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

So, if you look all products, spoke going to alloy wheels, kick-start going to electric start, that's really happening across all products whether it is the M1 segment or all the way up to the premium segment.

Sonal Gupta, UBS Securities - Analyst [111]

Anything in terms of, I mean, I know you don't track this on a rural-urban basis, but are there any trends, I mean for specific markets or something in this sense or do you think it's primarily a urban phenomenon even now or are we seeing that even in smaller markets, now you're seeing much stronger growth for premium motor cycles?

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

No, Sonal, I won't be very comfortable answering the question because it will just be an answer, which [I can't] give without any real data, so I prefer not answering that question.

Operator [113]

Pramod Kumar, Goldman Sachs.

Pramod Kumar, Goldman Sachs - Analyst [114]

Kevin, my first question pertain to the industry trends what you have talked about, just one clarification. The single-digit growth for the industry what you talked about, is it for the motorcycle industry or for overall two wheelers?

Kevin D'Sa, Bajaj Auto Limited - President - Finance & CFO [115]

No, motor cycle. Since we are not in scooters, I never talk about the scooter industry.

Pramod Kumar, Goldman Sachs - Analyst [116]

That's fair enough. And Kevin, I don't know if this question was asked, but what's your outlook beyond the next six months for three wheeler business because that's been a fairly good business for you in the domestic side this year and --.

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

I answered that question by saying that right now 2017-2018, we don't have any budgets or we don't have any numbers to give you. But on a personal note, I'm saying, there is no reason why the industry should not grow by 5% at least and I'm also saying that for me the growth opportunity in three wheeler exceeds the 5% because I've just been a new entrant to the combo segment. So, in the current year, for example, I will end selling only about 13,000 cargo vehicles and for me the upside of going just 13,000 going forward, I should outperform the industry because of my base in cargo vehicles is so low.

Pramod Kumar, Goldman Sachs - Analyst [118]

But passenger side, non-permit side, is the market still intact or is it kind of getting on the margins, getting some bit of competition from the electric? Because some of the governments are aggressively pushing this as a popular scheme. So, it's been a concern for some time, but I just wanted to (multiple speakers).

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

It will be a concern (inaudible) to all, but like I said, even on the electric vehicles and other such things as and when it happens, I'm quite sure that the company will be prepared to take on that competition. There is enough of work taking place within the company. So, if I'm talking the traditional sales as it stands today, for me, I would still believe given the increase in infrastructure, given this increase in this hub and spoke arrangement, etcetera, the small three wheelers will continue to grow and my estimate is 5% in totality and I will get additional increment coming from the cargo vehicles.

Pramod Kumar, Goldman Sachs - Analyst [120]

And are you seeing any luck, Kevin, (multiple speakers)?

Kevin D'Sa, Bajaj Auto Limited - President - Finance & CFO [121]

No, nothing at all. So once it's in the courts, we don't know what happens.

Pramod Kumar, Goldman Sachs - Analyst [122]

Do we run the risk of competitors catching up with us because others are working on it?

Kevin D'Sa, Bajaj Auto Limited - President - Finance & CFO [123]

No comments.

Operator [124]

Kapil Singh, Nomura Securities.

Kapil Singh, Nomura Securities - Analyst [125]

Firstly on VS400, what kind of marketing spends are we planning? Is it going to be --?

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

No comments.

Kapil Singh, Nomura Securities - Analyst [127]

Okay. I mean qualitatively if you can give us an idea, would it be something like V15 or will it be much higher than that?

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

No comments. All I can say is whatever is the budget that we have for the whole year, which is whatever it is about 1.5% or 2%, whatever is there; this expenditure on the new budget that's coming in or the new products coming in whether the V or the VS400 is all covered within the overall existing budget that we have spoken about.

Kapil Singh, Nomura Securities - Analyst [129]

Okay. And secondly, if you have any thoughts on how oil prices impact our exports, we've seen it moving up from \$25 odd to \$50. How has that had any impact if at all? And (multiple speakers).

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

Oil going from \$25 to \$50 has had zero impact. When I say zero impact, I'm presuming that if it is \$25, my exports would have gone worse. But at \$50 and \$25, my exports have been at the 120,000 or 110,000 numbers. So if I talk of Nigeria per se, my exports at \$20 or \$50 by and large are same. So even when oil goes to \$60 or \$65, I don't see a significant change happening in the near term.

Operator [131]

Viraj Kacharia, Securities Investment Management.

Viraj Kacharia, Securities Investment Management - Analyst [132]

Congratulations on a decent set of numbers in a challenging environment. Sir, just had a couple of questions more on the strategy perspective. If you look at the 125cc segment, it's an annual market of 1.8 million units consumer market. So, what is the target opportunity set for each V15 and Pulsar 135 and what are we doing differently this time with V compared to Discover 150 which was more for top-down led approach earlier? So, that's one.

Kevin D'Sa, Bajaj Auto Limited - President - Finance & CFO [133]

So, let me take that. As far as that target market is concerned, I don't think the Pulsar 135 will play a significant role over there. The Pulsar 135 is being produced because from the same line, a significant amount of Pulsar 135 goes into the export market. So, for us launching the Pulsar 135 in the Indian market is just an add-on to the number that we produce for the export market. So, I don't think that segment what we internally call the M3 segment will be addressed by the Pulsar 135. It is the V family that we will be using in order to address this entry segment and that's where we say that from a differentiated product where the V come from its form et cetera is what has been able to attract about 20,000 numbers to this segment. And I think with the family being extended, one should see a further growth in these numbers.

Viraj Kacharia, Securities Investment Management - Analyst [134]

Sir, just have a follow-up to this. If we look at Pulsar 135 in last six or nine months, we have introduced new color options, we have reduced the price by INR4,000 to INR5,000 for that Pulsar variant. So, that's the reason I was curious.

Kevin D'Sa, Bajaj Auto Limited - President - Finance & CFO [135]

So that's why I said, I'm being very candid,. I don't see the Pulsar 135 fitting that thing at all. But since I make Pulsar 135s in significant numbers for the export market, there's no incremental or additional cost for me in introducing the Pulsar 135 to the domestic market.

Viraj Kacharia, Securities Investment Management - Analyst [136]

And how much would 135 be in the Pulsar family right now, I mean roughly?

Kevin D'Sa, Bajaj Auto Limited - President - Finance & CFO [137]

I don't have a figure, but if I'm talking of between the domestic and global both put together, it will be in excess of 20,000 numbers per month.

Viraj Kacharia, Securities Investment Management - Analyst [138]

Okay. So, domestic would be very minimal then.

Kevin D'Sa, Bajaj Auto Limited - President - Finance & CFO [139]

Domestic is just about 4,000 to 5,000 and this 4,000 to 5,000 is not now. It's there for the last three, four quarters, or five quarters.

Viraj Kacharia, Securities Investment Management - Analyst [140]

Second question was if we look at the AGM, Mr. Rajiv talked about us looking at ASEAN as the next big market for exports given the kind of weakness or headwinds we are still facing in traditional markets right now. So, in the past also we have entered selected large ASEAN markets, but we have met with limited successes. So, what has been the key learnings there and what differently are we doing this time, which gives us confidence that we will be able to penetrate successfully in some of those large markets?

Kevin D'Sa, Bajaj Auto Limited - President - Finance & CFO [141]

Only thing is we have gone through twice. Once we went on our own, we didn't succeed. We went in with Kawasaki, we didn't succeed. We have certain plans, which we have started that we are looking at. But I'd rather share it at that stage rather than right now because I would believe that Rajiv would be in a better position to address that question and I would rather leave it to him to address this at a later stage, but let's right now focus on the accounts.

Viraj Kacharia, Securities Investment Management - Analyst [142]

Okay. So I mean if we just look at the past entries which we made say in Indonesia, was there issues on the distribution side or the retail financing because --?

Kevin D'Sa, Bajaj Auto Limited - President - Finance & CFO [143]

Combination of all. So, for example if you're talking in terms of which we went into Kawasaki also we have failed. So, I think there are multiple reasons why we failed. We're learning from that and trying and experimenting through a third method of how to get in and very frankly, I'm not even saying that I've got 100% chance of success over there.

Viraj Kacharia, Securities Investment Management - Analyst [144]

And this time the entry would be along with KTM, right? We will be managing KTM, what you say, sales for the ASEAN market. So the whole of Asian market, Bajaj bears the sole responsibility of distribution and marketing of KTM brand?

Kevin D'Sa, Bajaj Auto Limited - President - Finance & CFO [145]

That's right.

Viraj Kacharia, Securities Investment Management - Analyst [146]

And that will be plus 500cc as well?

Kevin D'Sa, Bajaj Auto Limited - President - Finance & CFO [147]

I won't comment on that.

Operator [148]

Raghu Nandan, Quant Capital.

Raghu Nandan, Quant Capital - Analyst [149]

Congratulations on a good set of numbers. Sir, over the medium term, do you see shared mobility like Ola, Uber taking away market share from three-wheelers? Can this industry shrink over a period of time?

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

Raghu, all these things let's leave it to the three-wheeler heads or something to talk. Now let's focus on the accounts, please.

Raghu Nandan, Quant Capital - Analyst [151]

Sir, on the FY18 with the expiry of tax benefits from Pantnagar plant, can you quantify what could be the impact on margins?

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

Margins per se will not change because as far as the tax benefit is concerned, the input of materials also takes a duty and the output of materials there's no excise. So, the excise per se is not a big benefit. The issue comes in the bottom line of the PAT. So, there I feel that the tax rate which is currently at about 28.1% may go up by a further 1%. On the EBITDA per se, it'll not make a difference.

Raghu Nandan, Quant Capital - Analyst [153]

And on the exports for the quarterly cycle, how is it ramping up and that target of 5,000 units for the year?

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

Will be met.

Raghu Nandan, Quant Capital - Analyst [155]

And how do you see it panning out for the next year?

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

Like I said, 2017-2018 numbers we cannot discuss because we don't have a vision and I have not sat with my colleagues nor have we worked out internal numbers for 2017-2018.

Raghu Nandan, Quant Capital - Analyst [157]

And sir, just one query on the global three-wheeler market. What would be the size of the market excluding India and which would be the larger markets?

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

As far as three-wheeler goes barring; it's TVS, Piaggio, and us is the global market. So if you add it all together, I think it'll be probably about 35,000 numbers a month for all of us put together. That's the global market.

Raghu Nandan, Quant Capital - Analyst [159]

And which would be the major countries contributing that volumes?

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

It is Egypt, it is Bangladesh, it is Sri Lanka, it is Mexico, it is Peru, it is Guatemala, and of course Nigeria.

Operator [161]

Kevin Mehta, IIFL.

Joseph George, IIFL - Analyst [162]

This is Joseph. When you gave the revenue number for exports, I noted down INR2,057 crores and then I realized that's the number for 1Q. Can I have the number for 2Q again, please?

Kevin D'Sa, Bajaj Auto Limited - President - Finance & CFO [163]

INR2,109 crores.

Operator [164]

Mithun Soni, GeeCee Investments.

Mithun Soni, GeeCee Investments - Analyst [165]

Just wanted to understand what is the outlook you have for the Avengers? What is the potential we can do over there and is there a potential to export that product to other countries?

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

Very much so and that's why the Avenger that's just been launched in November or December last year has a 150cc, the 180cc in the product. This has got a great opportunity to extend it. So, I'm not saying we will do it now, when, et cetera. But since we have the platform of Avengers, which is coming out now with the 400cc, it gives you an opportunity at appropriate time to consider this range also going up. The Avenger right now is just about a nine-month old product.

Mithun Soni, GeeCee Investments - Analyst [167]

How are you seeing a month-on-month increase in Avengers right now?

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

I would say that the Avenger family at this stage is stabilized at about 17,000 to 18,000 numbers a month.

Mithun Soni, GeeCee Investments - Analyst [169]

Okay. But are you really seeing that? Do you see that it has a potential in India to go up to say 30,000 plus?

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

In its current form and all, I would say no. But with add-ons, like I said if we increases the range, we should be able to go to 25,000 to 30,000 without any problem.

Operator [171]

Pramod Amthe, CIMB.

Pramod Amthe, CIMB - Analyst [172]

One with regard to two wheelers, the domestic sales of 25,000, what's the broad breakup in terms of --?

Kevin D'Sa, Bajaj Auto Limited - President - Finance & CFO [173]

25,000 of what?

Pramod Amthe, CIMB - Analyst [174]

The monthly run rate on domestic three wheelers, which we do.

Kevin D'Sa, Bajaj Auto Limited - President - Finance & CFO [175]

Domestic three wheelers we do 25,000, of that cargo is about 1,500 and then we have diesel would be about 14,000 and the balance will be clean fuel or gaseous.

Pramod Amthe, CIMB - Analyst [176]

And any indication what top state capitals might be contributing to your revenue or the three wheeler volume?

Kevin D'Sa, Bajaj Auto Limited - President - Finance & CFO [177]

Biggest three wheeler market is Andhra.

Pramod Amthe, CIMB - Analyst [178]

No, in the sense considering that people asking about the question on share taxis or (multiple speakers).

Kevin D'Sa, Bajaj Auto Limited - President - Finance & CFO [179]

Like I said, that question I will not answer because it is not my subject and strength at all to answer at this stage.

Pramod Amthe, CIMB - Analyst [180]

Okay. And second is with regard to any clarity on where two and three wheelers will land on GST bracket?

Kevin D'Sa, Bajaj Auto Limited - President - Finance & CFO [181]

No comments. None of us know.

Operator [182]

Chirag Shah, Edelweiss.

Chirag Shah, Edelweiss - Analyst [183]

Kevin, I just missed this domestic three wheeler break up you highlighted. So diesel is 14,000 per month and cargo would be how much?

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

2,000.

Chirag Shah, Edelweiss - Analyst [185]

And for exports, how this breakup looks like, it's largely clean fuel or it's only diesel?

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

Only clean fuel, no diesel. All clean fuel, no diesel.

Chirag Shah, Edelweiss - Analyst [187]

And second question was on hedging for next year and going ahead, I believe base rate would be at around INR67 or it could be lower depending upon where the currency is?

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

INR67.

Chirag Shah, Edelweiss - Analyst [189]

Base rate would be INR67. And I presume the gap would be of INR4 to INR5 in range forward?

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

Correct.

Chirag Shah, Edelweiss - Analyst [191]

And we still maintain that 65% to 70% hedging outlook, right? No change over there?

Kevin D'Sa, Bajaj Auto Limited - President - Finance & CFO [192]

Correct. But right now we are going slow on the hedge because there is the rupee is fairly stable so there's no need to jump into this. Right now we are covered a bit, but we are not being aggressively getting into cover.

Operator [193]

Jay Kale, Elara Capital.

Jay Kale, Elara Capital - Analyst [194]

Sir, I just wanted to understand before two, three months back I think the whole industry was very buoyant about the festive season with confluence of factors of monsoon, government pay commission, and all these factors and now we are saying of single digits. What according to you would have maybe gone wrong or is it more of a delayed demand that is expected? What is the industry looking at and what were you expecting and what did not come through? Is it the pay commission (multiple speakers)?

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

I don't know what the industry was expecting, but all those who have spoken to be on one-on-ones or wherever I've gone including the Morgan Stanley Conference in July, I was not a part of the industry who was so bullish. So, whatever I was predicting has come true.

Jay Kale, Elara Capital - Analyst [196]

Okay. But is it fair to assume that your growth because you had --?

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

I'm talking about industry not my growth.

Jay Kale, Elara Capital - Analyst [198]

Correct. Because your growth would be say 15%, 20% because you didn't have the Avenger base or the V15 base, which are incremental volume?

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

I'm talking about the industry growth. I was never a part of the crowd that was talking of a high growth because of the high festive season, pay panel commission, et cetera. I'm very clear this is what I mentioned in the Morgan Stanley Conference and when I was in the Morgan Stanley Conference, I was reported on CNBC also and I was very clear that this is will; the pay panel everything will be extremely buoyant for the car industry, but not so much for the motorcycle industry.

Jay Kale, Elara Capital - Analyst [200]

Okay. And are you seeing let's say the rural growth may be picking up later, be more of a gradual recovery than a bulky festive recovery? Is that something feelers that you're getting or it's just --?

Kevin D'Sa, Bajaj Auto Limited - President - Finance & CFO [201]

No, I won't comment on that because if at all, all I will say with this good monsoons and all those sort of things, there is no downside. There's only an upside, but if someone presumes that the (inaudible) industry or the motorcycle industry, again I'll be specific, growing by 10%, 12%, 15% because of the monsoons, I have my reservations.

Jay Kale, Elara Capital - Analyst [202]

Okay. And I just wanted some confirmation in spare parts revenues. For Q1 that is last sequential quarter, it was INR637 crores, is that correct?

Kevin D'Sa, Bajaj Auto Limited - President - Finance & CFO [203]

That's right and now it's INR741 crores.

Jay Kale, Elara Capital - Analyst [204]

Okay. No, sir. Q1, the quarter.

Kevin D'Sa, Bajaj Auto Limited - President - Finance & CFO [205]

Q1 was INR637 crores, Q2 was INR741 crores making a total of INR1,378 crores.

Jay Kale, Elara Capital - Analyst [206]

Okay. And Q2 FY16 last year would be INR621 crores, is that correct?

Kevin D'Sa, Bajaj Auto Limited - President - Finance & CFO [207]

That's right.

Operator [208]

Thank you. Ladies and gentlemen, that was the last question and we will now close the question queue. I would like to hand the floor back to Mr. Kevin D'Sa for closing comments. Please go ahead.

Kevin D'Sa, Bajaj Auto Limited - President - Finance & CFO [209]

All I can say is thank you very, very much for the kind words you have mentioned about the performance and I'd like to wish each one of you all a very Happy Diwali and a very prosperous peaceful New Year. Thank you.
