Updated:	26-10-2018 09:01
Tags:	@vishnu570

110-140 minutes

Pune Oct 25, 2018 (Thomson StreetEvents) -- Edited Transcript of Bajaj Auto Ltd earnings conference call or presentation Thursday, October 25, 2018 at 4:15:00am GMT

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Ladies and gentlemen, good day, and welcome to Bajaj Auto Limited Q2 FY '19 Earnings Conference Call hosted by Investec Capital Services. (Operator Instructions) Please note that this conference is being recorded.

I now hand the conference over to Mr. Aditya Jhawar from Investec Capital Services. Thank you, and over to you sir.

Thank you. Good morning, everyone. On behalf of Investec, I welcome you all to the conference call of Bajaj Auto. I also take this opportunity to welcome Kevin D'Sa, CFO; Mr. Rakesh Sharma, Chief Commercial Officer; and Mr. Soumen Ray, the incoming CFO. And I also take this opportunity to congratulate Mr. Rakesh Sharma to being elevated as Executive Director and being a part of the board member.

Over to you, Kevin.

Sure. Thanks, everybody. Thanks for the interest. And as usual, let's go for the Q&As, please.

(Operator Instructions) The first question is from the line of Ashish Nigam from Axis Capital

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Ashish Nigam, Axis Capital Limited, Research Division - SVP of Automobiles [2]

My first question was on mix. How do we see product mix evolving over the next 2 years? So let's say in terms of domestic, the CT100 has now reached a sizable number, it's now 36% of domestic volumes. So does this stabilize here? Or do we expect it to increase further?

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

You're talking about the next 1 year, 2 quarters, or how do you want us to reply?

Ashish Nigam, Axis Capital Limited, Research Division - SVP of Automobiles [4]

Maybe the next 1.5 years, 6 quarters.

Rajiv Nayan Rahulkumar Bajaj, Bajaj Auto Limited - MD, CEO & Executive Director [5]

So what I see in the next 1.5 years and Rakesh will definitely add to what I'm saying, is, right now, I'll break it up into the segments where because the M1 segment where we are predominantly there with the CT, but in the near term what we're seeing very clearly is that the Platina is picking up traction. And therefore, as you know, the CT, while it is in a loss proportion right now, the Platina is in the profitable zone. So within the M1 segment, I see the Platina is becoming a bigger prize and as demonstrated by the past trends. As we go forward also in the short term, you are going to see us focusing a lot on the sports segment where we're seeing significant growth coming in on the Pulsar segment with the introduction of the Classic as well as with the other products. So even in the Pulsar family, I would say that the growth from this ordering about 75,000 to 80,000 numbers a month will go to 90,000. So in the short term, in the domestic part, I think on margin side and there it will be balanced out with the Pulsars taking care over of the high profit segment, Platina evening out the negatives on the lower-end segment. But as we talk about 1, 1.5 years situation, there will be more products coming in primarily in the M3 segment. So therefore, I would say that overall domestic margins and mostly it shall go up purely on account of this mix change where vehicles should move, vehicles come in the entry segment, but Pulsar's going up in the S1 segment and the Platina taking up a much bigger role in the M1 segment.

Ashish Nigam, Axis Capital Limited, Research Division - SVP of Automobiles [6]

Okay. And the CT100 profitability, I mean, at this volume, and I believe there is some pricing action also, has that improved?

Rakesh Sharma, Bajaj Auto Limited - Chief Commercial Officer & Additional Whole Time Director [7]

It has improved. So we have taken up of the prices up about INR 1,800 in the CT. So that has definitely improved the profitability, but yet, still in terms of profitability it's in the negative zone.

Ashish Nigam, Axis Capital Limited, Research Division - SVP of Automobiles [8]

Okay. And also, just on a related note, the share of Africa within exports, that also helps the export mix. How are we seeing the share of Africa within exports?

Rajiv Nayan Rahulkumar Bajaj, Bajaj Auto Limited - MD, CEO & Executive Director [9]

I'll take that. The share of Africa has been rising, particularly in the last 12 to 18 months on the back of certainly coming in from -- it had been better due to better oil prices and commodity prices which we are dependent on. We think that the share of Africa, unless some numbers of (inaudible) goes down or something, during the current situation, the share of Africa will continue to [increase]. It will be the fastest-growing region within our portfolio. Right now, it's about 45%. It could go up to about 50%.

Ashish Nigam, Axis Capital Limited, Research Division - SVP of Automobiles [10]

Okay. Okay, that's helpful. My second question was about the hedges. Rajiv just mentioned on TV that 73 from April 2019 onwards and I think that margins were 19%. And if you can you just talk about that a little more granularly. So we realized 69.4 and assuming the rupee remains where it is, how will our realization look for the second half and FY '20?

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

So as far as '18, '19 is concerned, I've taken the covers about 12 to 18 months back when the rupee was at about 64, 65. And our entire focus on the hedge was to cover our base cost which was INR 56. So at that point in time, the covers that we took was in India terms, to shift it to about 69.5 to 70. So what you're going to see in the near term, that is for the next 2 quarters, is that we're going to get a higher level of the hedge, which is at above 69.5. To the extent, there is an uncovered portion, we will be getting a spot rate. So therefore, my estimate for this quarter 3 and quarter 4 will be closer to the 70 mark, but not exceeding INR 70. As we move into '19, '20, there, the covers that we are taking is allowing us to realize somewhere near the INR 73.5 to the dollar. Now, we're not thinking of full cover, we are in a wait-and-watch mode, but to the extent the covers we are taking, we are then sure are INR 73 to the dollar. Now that is very important for you all to know is actually a INR 4 realization per dollar extra. And if we are talking about an average run rate today of about $120 million every month, we're actually talking of about INR 50 crores coming in every month extra from 1 April on account of the dollar change. Again, I'll put a rider to this. Like I said with the INR 50 crores is going to come in, and so that's on a like-for-like comparison as what we are today. As Rakesh has mentioned yesterday, there is no undue pressure from the market for passing on this rupee realization to that. So this is a potential that the company has originally into this kitty. So I would like to look at it and say that is a business on an ongoing basis. If I was to look at my margins today as per my calculation is the 18% and not 16.8% that has been reported, that 18% calculates to 20% purely on account of the exchange rate difference.

Operator [12]

The next question is from the line of Pramod Kumar from Goldman Sachs.

Pramod Kumar, Goldman Sachs Group Inc., Research Division - Executive Director [13]

Congratulations to Rakesh. My first question pertains to the domestic demand outlook. We heard Rakesh on television yesterday, even Rajiv, Mr. Bajaj, was also on television sometime back. And he did talk about a fairly good growth so far in the season for you. So if you can just quantify that Rajiv did mention that on TV, but we couldn't kind of catch it, but if you could just provide some color on your performance so far in the season and in context of the industry? And are you seeing things kind of improving as the season progresses closer to Diwali?

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

Thanks, Pramod. So most of you are aware, it is the middle of the season, so we've got the bandwidth of the Dussehra and now this is the runup to the Diwali, which is the major part of the season, right? And so really, the dust will only settle by first week or second week of November when we will -- which we will get to know. So from an industry point of view, it is just a level of organized gossip, which we can sort of bandy around, which is inputs from how the transporters are behaving or what our field officers are reporting or some little bit of exchanges with the -- with our colleagues in the other companies. And that suggests that the season is not progressing as well as expected for the industry. It's in the negative zone right now. Maybe the soft feel one is getting is that it's about between minus 5 to 0. The season is particularly more severe on the automobile industry. So that's why a lot of signals are getting mixed up and are getting reported as such in -- on the television. Now having said that, other numbers are looking much healthier than this. And that's why I would like to make the industry comment only once all the numbers are in because as, again, this minus 5-or-odd, our numbers, on a like-to-like comparison, if I forget the date, we get told the date, between when the low end of that switch, whatever it's called and it picks up to Dussehra and 3, 4 days after Dussehra if you can compare it like-to-like last year. We -- and we also as well as things like what is the deliveries which are being made, but not yet sort of reported in the system, all that put together, we are growing in double digits. We'd expected that we should be growing between 15% to 20% at the advent of the season. Well, I think, we probably done in between 10% to 15%, but the next few days are very important. So I hope this is true that our numbers, which we are certain now the numbers which I am telling you, are so much better than the industry numbers, which we have just gleaned from talking to different places. So that's what it is right now. I think we should be through with the season with 10%, 15% kind of a growth.

Pramod Kumar, Goldman Sachs Group Inc., Research Division - Executive Director [15]

And the second part of question was are you seeing any trends improving in terms of your own footfalls as we approach Diwali? Because there was some bit of confusion around insurance regulations at the start of Navaratri and all that. Are the trends on a -- as you track it on a daily basis on inquiry, walk-ins, car dial-ins and all that, is it kind of improving or is it kind of stable or worse?

Rakesh Sharma, Bajaj Auto Limited - Chief Commercial Officer & Additional Whole Time Director [16]

Actually, I think there is -- we are sensing a slight improvement because at the time of Dussehra, this whole insurance [regulation] was too sudden and too close to the Dussehra thing and I think whereas most of the -- you see, before the insurance announcements were made, the dealers were pretty upbeat about the season, competition dealers as well as our own dealers, then the insurance bombshell happened. And the interpretation of largely the market was that this is unfortunate. The timing is even more unfortunate. However, there is no option and people will digest this over a period of time and -- because we will start coming back. Now that has, indeed, played out like this, but it has hit it pretty severely during the Dussehra time. Now as more and more time elapses, we are finding that, yes, it is getting internalized and there is a marginal improvement in the footfalls as we approach Diwali. But it's marginal. But the curve -- originally, the curve was changing, that's -- there's no doubt about that.

Pramod Kumar, Goldman Sachs Group Inc., Research Division - Executive Director [17]

And Rakesh in your experience, having tracked you in international and domestic market for the last 2 decades now, and then, how long is the consumer as in the period taken with the consumer to kind of absorb this and kind of come to terms with the new elevated costs of ownership? So normally, is it in months or is it in quarters? How long can this recovery kind of take time before it kind of gets affected in growth for the industry again, in your experience?

Rakesh Sharma, Bajaj Auto Limited - Chief Commercial Officer & Additional Whole Time Director [18]

I think it certainly takes something like 3 to 4 months.

Pramod Kumar, Goldman Sachs Group Inc., Research Division - Executive Director [19]

Three to 4 months.

Rakesh Sharma, Bajaj Auto Limited - Chief Commercial Officer & Additional Whole Time Director [20]

For an event like this to get completely digested and internalized, et cetera. So in a very counterintuitive way, actually being in a season period is life gets adjourned, but also, the 3 to 4 months may just get shortened to 1 or 2 months because, you see, in any case, the customer is in a little bit of a buying mood. Customers waited for a long time, there is lot of sort of [uncertainty] around. At least our category, it's a very important purchase to make in the season. People wait for this event. And there will be probably more positively disposed to shrug this off. So I would say, whilst it's a bad joke for the season time, but at the same time, I think the digestion period is going to get shortened because of this atmospheric. So probably a couple of months, 2 or 3 months, but then after that, we run into those -- run into a very, very difficult month, which is December, as you know. So I would say that January onwards, we should -- this should be completely washed off the system.

Pramod Kumar, Goldman Sachs Group Inc., Research Division - Executive Director [21]

Great to hear that. And the last question is on the....

Operator [22]

Excuse me, this is the operator. Mr. Kumar, may we request you to come back in the queue?

Pramod Kumar, Goldman Sachs Group Inc., Research Division - Executive Director [23]

Not a problem.

Operator [24]

(Operator Instructions) The next question is from the line of Ruchit Mehta from SBI Mutual Fund.

Ruchit Mehta, SBI Funds Management Private Limited - Analyst & Fund Manager [25]

Just one small question. You gave some outlook on your motorcycle side in the domestic market. Could you just give a perspective on the 3-wheeler side as well? How do you see it over the next sort of 4 to 8 quarters?

Rakesh Sharma, Bajaj Auto Limited - Chief Commercial Officer & Additional Whole Time Director [26]

The 3-wheeler side is quite steady in the next 2, 3 quarters in terms of that we will continue, I think, to incrementally expand our market share position. We have been, every quarter in the domestic market, touching 1 lakh units per quarter, 32,000, 33,000 units. Sometimes we've been 93,000, 94,000, 95,000 per quarter and that's also, I mean, a little bit of a reflection on the -- our supply chain. We're not -- while the nameplate capacity is [varied to service] the 90,000 in the quarter. However, sometimes the mix imposes -- the mix in the timing, imposes the -- so the market is left a little bit hungry. That's why I'm saying if it was a perfect match between the supply chain and the pattern of demand, we should be touching 1 lakh, which is a very, very sound number, which suggests that the market share will continue to increase. You know that we have a very dominant market share, and we will keep chipping away and adding a couple of percentage points. The great thing about this is and the thing to note about this is that underlying these increases, the consistent reduction in the dependency on permit. Because we have opened up segments in the large passenger segments in the interior areas where the new product introductions of the last 12 months or so are -- have been received extremely well, backed by solid service and maintenance and care by the team. The large passenger segments and the budding new segment of cargo, our new product introductions have done extremely well over there, and we are gaining market shares for that.

Now in terms of growth for Q3, Q4, you might see the growth very muted because of a base effect. However, because the last year we had already started to see a big upsurge led by permit in the Q3, Q4 of last year. But we will continue to start up with nudging 1 lakh units in domestic sales per quarter.

Ruchit Mehta, SBI Funds Management Private Limited - Analyst & Fund Manager [27]

What's your probability that at some point 3-wheeler growth sort of flattens out? Or you can see a small dip of 5-percent odd levels also happening over the next period or quarters? Do you see any probability of that happening?

Rakesh Sharma, Bajaj Auto Limited - Chief Commercial Officer & Additional Whole Time Director [28]

Yes, this is a question which sort of is always hanging on us, our heads and not just for domestic, but globally. Globally, we continue to get surprised I must confess. Because we continue to sometimes feel that, okay, now we're really doing a lot that has got -- there's a huge penetration, which is being achieved and it has to stop. But that has not occurred. Contrary to our expectations, we are facing a capacity issue. So I -- really and particularly after sort of reducing our dependency on permit, I really don't see that the 3-wheeler business internationally or domestic-wise is going to come down. Of course, behind this is the fact that there is a lot of development work, which keeps ongoing -- going on. We are seeing a very positive move in domestic with the 3-wheeler as the fuel is changing from diesel to CNG. The CNG penetration is advancing very steadily and very strongly in the country. As you know, we are like 80%, 90% market share when it comes to alternate fuels. And this gives us a tremendous tailwind to cannibalize market share from the competitors who are diesel-dependent into them. So we have got a game plan, which is anticipating the geographies where CNG is rolling out and we are readying ourselves to convert the diesel-based demand into CNG, which is a far, far superior proposition in terms of paybacks and returns. So all these things when we put in, we don't see any reason to think that 3-wheeler demand will come down.

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

In the light of -- Kevin here, about 3.5, 4 years back, we were selling about 4 lakh 3-wheelers domestic and exports, and that was a query that came up and we've always concerned about that. This year, we'll be ending the year at about 8 lakhs.

Ruchit Mehta, SBI Funds Management Private Limited - Analyst & Fund Manager [30]

Okay. Okay. And just a query because you said that typically, a customer will take 3 to 4 months to sort of digest the kind of price increases happen post the insurance thing. We probably will be looking at something close to that or maybe 60%, 70% of that once we hit the BS VI transition. And there also, do you think that the customer would take a similar time period to digest that kind of a price increase? Or because it's as well advertised or well known in advance, it could be shorter?

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

There, my personal call is like this. There will be a -- unlike the digestion part over that, there will be a huge preponement of purchases. So as you've seen the Supreme Court yesterday has said that all vehicles sold from 1st of April has to be the new BS VI norms. Therefore, what I see happening is that the custom -- there'll be a huge production surge in demand that will take place in '19, '20 and there may be a 4-month lag that will happen before the people start buying in 2021 at the new price. So it's not so much a situation or digestion of that, it will be a preponement of purchases.

Operator [32]

The next question is from the line of Binay Singh from Morgan Stanley.

Binay Singh, Morgan Stanley, Research Division - Executive Director [33]

First question is that when you look at the sales promotions spend on the domestic business, how we had 6 [scheme] in last quarter, the 555 scheme this quarter. So is the spending going up on a sequential basis or is it sort of broadly the same?

Rakesh Sharma, Bajaj Auto Limited - Chief Commercial Officer & Additional Whole Time Director [34]

It is fixed within the overall budget of the company for the year. Now what you're going to see between quarter 2 and quarter 3, as you see, know that the 555 scheme is going -- is implemented in Dussehra as well as in Diwali, which is going to be in October, November, which is going to be in the retails, and not on the billing. And hence, then the retails are going to be higher in October, November, the actual payout of -- on the 555 scheme will be higher in this quarter as compared to the -- at this scheme last quarter. So yes, if I look at quarter-on-quarter basis, you will see higher ad spends that will come in, in quarter 3. Having said that, there are no major product launches that are taking place in quarter 3. So budgets that are kept for the product launches, et cetera, will be used for this purpose. So net-net, the overall percentage of advertisement and to the sales will be by and large the same.

Binay Singh, Morgan Stanley, Research Division - Executive Director [35]

Okay. Okay. And secondly, like when you look at our 2019 versus 2018, you take into account rising rates, you take into account insurance cost, some incremental ABS cost, do you think the industry will have a stronger year in 2019 versus what is happening in 2018? Or do you think the demand -- we would actually be now in a -- sort of a more longish...

Rakesh Sharma, Bajaj Auto Limited - Chief Commercial Officer & Additional Whole Time Director [36]

Financial year '19 or you're talking of financial -- you should be talking of financial year '20, right?

Binay Singh, Morgan Stanley, Research Division - Executive Director [37]

Yes. I mean, we can either make it financial year or calendar year. Yes.

Rakesh Sharma, Bajaj Auto Limited - Chief Commercial Officer & Additional Whole Time Director [38]

So I would put it as my own estimate, Rakesh would correct me, is right now I'm talking of only the motorcycle industry. We are at the present at about a 13% growth. My own call for the whole year basis will be somewhere near the 8% to 9% growth for the whole year basis.

Binay Singh, Morgan Stanley, Research Division - Executive Director [39]

Right. And for next year also, do you think it's only...

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

I would say that the growth will come in significantly higher, again, because in the second half, there'll be a preponement of purchases that is going to come because of the BS VI.

Binay Singh, Morgan Stanley, Research Division - Executive Director [41]

Right. Right. So that will basically support. And then just last question on INR versus margins. Historically, we've seen, right, from 2011, '12, that the weakened INR hasn't really translated into stronger margins because some of your end markets also see currency depreciation and at times, you end up passing that. So at this point in time, what sort of a confidence will you have in sort of guiding for an incremental 150 or 200 basis points of margin cushion?

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

No, I'm not guiding on that basis. I'm just trying to say that the strategy that we are following today has to keep in mind the fact that at present, I'm losing this 2% on account of exchange rate. As you go forward, the rate and the pricing is determined by competition action, competition prices, Chinese prices, et cetera. Now despite that fact, I'm getting 69 today, whereas competition maybe it's a TVS, maybe it's a Hero, maybe the Chinese are getting the benefit of the higher benefit of the depreciation. I have no pressure right now to change my prices. And therefore, on that assumption, as I go into the next year, I will be in a position to retain this INR 4 as it stands today. Because it's only me as a company that's getting 69, whereas the rest of the competition is probably getting 73.

Binay Singh, Morgan Stanley, Research Division - Executive Director [43]

Right. Right. But whether -- will that translate into, like -- I know it's difficult to talk about FY '20, but in your view sitting today, do you think the FY '20 margin, reported margin for Bajaj can be 150, 200 basis points higher? Or do you think on the domestic side, because of entry-level models or something, it can get compromised?

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

Like I said and which Rakesh has mentioned yesterday, it's going to be the blended margin. So when we say that the domestic motorcycle is going to improve, in that sense, I am also saying today if fell below the goal, the next year, the Platina is going to be higher. There'll be new vehicles in the M3. This sports segment will be higher. So motorcycle division itself will show higher profitability in the next year as compared to the current year. As far as the 3-wheeler is concerned, there is no problem at all in terms of the costing, pricing and the ability to pass on cost. And therefore, for example, when I come to the exports, there's going to be a top-up in the margins that we have, which is, again, very healthy, in excess of 20%, to get this additional amount. Now whether Rakesh and his team would like to plan to keep the entire amount or will use some part of that to build up market share, et cetera, it's their call.

Binay Singh, Morgan Stanley, Research Division - Executive Director [45]

Right, right. But it's a question that you'd like to even have.

Operator [46]

The next question is from the line of Pramod Amthe from CGS-CIMB.

Pramod Amthe, CIMB Research - Head of India Research [47]

Two questions. One, whatever the aggressive pricing, which you had shown in different subsegments, it seems to have definitely delivered on your market share reversal. Have you -- other than the market share reversal, what are the internal targets in terms of which you have achieved, either in terms of footfalls or conversion rates and all those things? And how much of these incremental market share which has come through is predominantly these aggressively priced products, and hence, it might be -- is it worthwhile to continue them in a similar strategy?

Rakesh Sharma, Bajaj Auto Limited - Chief Commercial Officer & Additional Whole Time Director [48]

See, we had -- somewhere in February, March reoriented our strategy and focused -- got the focus on 2 segments. One was the entry-level segment and where we felt we had the biggest opportunity, looking at the vulnerability of the competition and our own product portfolio and brands, we had the biggest opportunity for volume growth. And the second segment was our traditional stronghold, which was the sports segment where we have the Pulsar. And that we felt we could gain, but since that segment is small, it would not lead to much of volume, but certainly, it was -- we held it for the company in terms of its margin and EBITDA balancing. And in the last 6 months or so, we have played this strategy. The go-to-market strategy was to subsegment these 2 segments and offer products at different price points, as also some value-added products at the higher of the subsegments within the segment. So that's why we went with CT100 as a price valuer, but at the same time, we promoted the Platina where our margins are better in the same segment. And particularly in the last couple of months, we have found that the Platina growth and volumes are now overtaking the CT100 and we are making decisive inroads into both -- first TVS and now into even Hero. So that's the most amount of volume for us and we've gained about 6%, 7% market share and there is no reason for us to relent on this. We will continue to drive this. But we are going to -- very quickly, you will see enhance the product portfolio. We'll now be intervening at the top of the subsegment. So in the entry level, we'll now be intervening through products, better value products at the top also. So that will also hopefully balance the margins a little bit in that entry-level segment. Exactly the same thing is being done in the sports segment where we split the sports segment, our offering, to 3. At the top, it will be Twin Disc Pulsar and the traditional Pulsar 150 is in the middle and we brought in the Pulsar what is loosely called the Pulsar Classic at the bottom in a bid to upgrade and expand the sports segment and take people through. Now that also is what the -- what is a very, very welcome surprise to us is the extent at which the Twin Disc has performed. In fact, the Twin Disc is the single, largest-growing brand for us. It has ousted the growth of the CT100, Platina and everything. So there's a lot of top line product. It has grown the fastest. So because of the Twin Disc, the Pulsar 150 has demonstrated collectively the fastest growth. And we're going to continue this. We're going to sort of embellish this offer in the sports segment also. So the strategy, there is the outcome that -- most important outcomes, which we are seeing are very well aligned with the strategy, which has been thought out and we are seeing more reason to sort of shift gears or anything and we will continue to drive this very -- drive this forward. One consequential benefit of this, I think you alluded to it, you wanted to understand the impact on the footfalls of the channel, one very important thing which I think is helping us in the season is the very positive sort of flow onto the channel. The dealers are feeling energized, they're seeing a very decisive focus by the company. They're feeling like putting in some investments of their own in the local outreach, which is so important. And we are seeing that kind of shift occur. So that's how it's also very precious from our point of view.

Pramod Amthe, CIMB Research - Head of India Research [49]

Sure. If I can ask one more question related to 3-wheelers. You have announced CapEx and a capacity uptick after a long time in the 3-wheeler segment. How much of that you feel is -- do you see more confidence of 3-wheelers sustaining momentum with the BS VI helping the demand shifting from MCV to 3-wheelers? Or do you see more of an export opportunity opening up for the 3-wheelers? What gives you the confidence to go for a 20%, 25% uptick in capacity in the 3-wheeler segment?

Rakesh Sharma, Bajaj Auto Limited - Chief Commercial Officer & Additional Whole Time Director [50]

See, like I said before, we definitely see -- we see a steady growth in demand. We are already pushing capacity. Our capacity is something like 840,000, 850,000 and -- on an annual basis, and we're trying to push this to 1 million-or-so. Once a new factor, which will start to come in, I think about in 6 months' time, is the development of Qute. This capacity is a consolidated capacity between 3-wheelers, large 3-wheelers and Qute. They'll all get done in the same plant. Hopefully, with now Qute being approved for registration in about 18 states of India and the sealing work already commenced, we feel that this will -- the demand will start to build up next financial year and those numbers will not be very big, but it does add a little bit of complexity in the manufacturing line. So given all that, the outlook on conventional 3-wheelers being steady, the appearance of the Qute, rolling all that in, we think it is important to be slightly ahead on the curve and go for a 1 million capacity. It's -- as you see, it's not a greenfield project, so the CapEx numbers and all are very meager. A lot of it is also at the vendor.

Operator [51]

The next question is from the line of Aniket Mhatre from Haitong Securities.

Aniket Mhatre, Haitong International Research Limited - Research Analyst [52]

Sir, a couple of follow-ups. You indicated to us you have hedged FY '20 partially. Could you give us an indication how much of your exports exposure for FY '20 is hedged currently?

Kevin Pius D'Sa, Bajaj Auto Limited - President of Finance & CFO [53]

No. That we don't share. It's confidential. But let me just say that it's not significant. We have given the rapid depreciation in the rupee. We have, as of now, taken our hold position.

Aniket Mhatre, Haitong International Research Limited - Research Analyst [54]

Okay. Understood.

Kevin Pius D'Sa, Bajaj Auto Limited - President of Finance & CFO [55]

Whenever we have hedged, we have got a minimum realization of about 73.

Aniket Mhatre, Haitong International Research Limited - Research Analyst [56]

Understood. But sir, then in that sense, it won't be beyond 10% of your exports exposure at the moment?

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

At the moment, that's right.

Aniket Mhatre, Haitong International Research Limited - Research Analyst [58]

Okay. Understood. My second question was around the fact that, I mean, your strategy of gaining market share is clearly working right now, but it's coming because of your higher promotional expenditures. So whilst a hat trick happened in July, August and then we had this 555 scheme continuing in festive season, given that demand is weakening now, do you expect the need to extend these promotional schemes beyond the festive season to maintain your market share?

Rakesh Sharma, Bajaj Auto Limited - Chief Commercial Officer & Additional Whole Time Director [59]

See, we will take these calls as we sort of exit this quarter and based on the judgment as to how the season has gone and how we are seeing the demand. So it is in our radar. We have not formulated it, but I would not rule out that if in January, February, March, selectively in some regions, we've got to better up things, sweeten the deal a little bit, maybe there are a couple of product introductions, we need to give them proper charge or introduction, I do not rule these offers out, but they will not be on a national and grand scale like the 555.

Aniket Mhatre, Haitong International Research Limited - Research Analyst [60]

Great, sir. Understood. So just one final thing. On the Platina, you've given, sir, indicated that the Platina is profitable at the moment. Even after the 555 scheme, the Platina is profitable?

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

Oh, yes. For us, for example, when we talk of this 55 scheme, et cetera, what we do is we take a total element cost per vehicle that we are taking under different brands and then adjust it for that.

Operator [62]

The next question is from the line of Amyn Pirani from Deutsche Bank.

Amyn Pirani, Deutsche Bank AG, Research Division - Research Analyst [63]

I have 2 questions. One is more on your strategy. Obviously, it is appreciated that you have done a lot of price corrections in a lot of segments to gain market share.

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

Amit, on the sales strategy, strategy or you then come out as a sales reporter.

Amit Mishra, Macquarie Research - Analyst [65]

So my -- so what I want to understand on that case, sir, at the end of the day, I mean, what -- eventually, I'm assuming that earnings growth or operating profit growth is something that you want to look at. So right now, that is not visible. So is it just more of a timing thing and you feel that after you've reached a certain market share scale, even despite these measures, you will still have a stronger earnings growth? Or how should we look at it? Because you just mentioned that you may not necessarily reduce the incentives even in 4Q depending on how the market is then. We may continue to have very strong volume growth, but earnings may continue to be neutral. So how should we look at it from a one

(technical difficulty)

Unidentified Company Representative, [66]

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because so many of you all are taking these figures. Does the CSR expenditure for taking these expenses? Can you knock that from the EBITDA? So when you just take a ballpark figure and jump to the conclusion that my EBITDA margin has come down from 19.2 to 16.8, I think that is actually wrong. You need to look at the data, which I'm more than happy to share with anyone at all who want the information. The actual figure is in quarter 1 of the current year, my EBITDA margin was 18.4. My EBITDA margin in quarter 2 is 18 as against quarter 2 of last year, 20.8, okay? So despite the fact that my turnover has gone up, my sales have gone up to a record rate, my market share has gone up from 15% to 20%, my EBITDA margin from 18.4 in quarter 1 has come down to 18%. So I don't see any, any, any reason for anyone to start jumping to this conclusion that my strategy is wrong, et cetera. Even if one wants to question my strategy, you're really questioning the strategy of 14% or 15% of my overall business. You have no problem on the exports, you have another, like I said, INR 180 crores per quarter sitting in my cushion -- pocket for my exports. You have no problem on 3-wheeler is showing a growth. [Nalin V.] asked me the spare part figure right now, the cost, almost about INR 1,500 crores or circa in the 6 months. Everywhere we are seeing growth, what we are focusing on, on this 15%, 16% of my total turnover where I played a bit of a price cut, which you're attributing completely to margins. Now let's take competition. Let's take my biggest competitors, Hero. Sequentially, have the margins changed? It has. It has no downward. Have they played a price card? Have they had a CT in the game? No. In the industry, that's the story. So the point that we are saying, that this strategy is it continuing cannot be used start and strategy and stop at the minute you reach a point. So it will be a long-run strategy for the entry in 1 segment. But that is only one part of our strategy. Strategy is built on price, products, performance, people. So there'll be strategies involved in network, there'll be strategies involved in product, going forward KTM is there, Husqvarna is there, Triumph is there. Then you come into the M3 segment. Where am I in the M3 segment right now? I'm hardly there. I just got the VO there. So the company is going to come out with production in the M3 segment. So if as you look at and make a report, not quarter-on-quarter, but over a 2-year trend, look at the positive angle and see that I'm not presently in the M3, I get the M3 segment there. At the M3 segment, I will definitely get double-digit margins. And therefore, in the long-term, barring unforeseen circumstances, barring no crazy reaction by competition, my margins will inch up year-on-year.

Amyn Pirani, Deutsche Bank AG, Research Division - Research Analyst [67]

And sir, just on the premium side, while Pulsar has had a very strong growth this year, the Avenger, which I believe is also an equally high-margin product, has seen a decline. So can you highlight what is happening there? I mean is that subsegment not having any favor with customers? Or is there a product refresh issue that is causing the problem there?

Rakesh Sharma, Bajaj Auto Limited - Chief Commercial Officer & Additional Whole Time Director [68]

Yes, you're right. The Avenger sales has slowed down. I think some product intervention is needed. The end of Avenger which was widely successful was the 150cc. However, it was also felt at the same time that at 150cc, the Avenger was slightly underpowered, particularly for certain areas and with the form, you know the 150cc is a little bit of a smaller capacity for a cruiser kind of a form. And we pushed that to 180. But in doing so, what has happened is while it has improved it as product proposition, it has found favor with some, but there is a little bit of an intimidation. Now it's only 30cc, but people do feel a little bit intimidated crossing the 150 forge line. And I think going forward, we will address that because the previous experience has shown a very nice sort of a segment, which almost got created by us in the sporty commuter, urban commuter, relaxed commuting kind of approach. So we will be sort of working on the portfolio a little bit from a product intervention point of view. Hopefully, that will secure us a wider acceptance and return to higher growth numbers.

Operator [69]

(Operator Instructions) The next question is from the line of Sahil Kedia from Bank of America Merrill Lynch.

Sahil Kedia, BofA Merrill Lynch, Research Division - VP [70]

One question around the export business. You said that the share of Africa has been going up. Can you help us understand how the product mix is changing? I know that there was a plan sometime back to have more non-Boxer exports. How is the plan changing? And what is the contribution from some of the new markets that you're entering? And how should we think about this on a 2-year basis?

Rakesh Sharma, Bajaj Auto Limited - Chief Commercial Officer & Additional Whole Time Director [71]

The thing is that while we are experiencing growth in the -- let's say, the higher end, which is the sports segment, the Pulsar, et cetera, these are doing well, they're improving their market share, but which -- with this turn in Africa in the last 12 months or so, tends to overshadow everything. Now Africa itself is largely -- it's a taxi market and it's largely driven by Boxer, which is a 100cc product at the bottom of our portfolio. And it's, of course, the largest -- single largest selling brand across Africa now; a lot of feet people have it. We cannot deal with the arithmetic of this because if this portion goes up, even if Pulsars are advancing well in Latin America and all, we can never keep pace with the return of Africa. What we have done in Africa though is introduced the 150cc and within the 150cc, we have introduced some higher order variants. We've also introduced the Pulsar selectively in a few countries where we feel the -- there is probably going to be some traction for personal commuting. These collectively, let's say, the Pulsar and the Boxer 150s and the X-Series and Boxer, our margins are better, our realizations are better, but in combination, still only about 20% -- or less than 20% of the Africa portfolio. They're increasing, but it will stay -- it's at a slow pace. So I won't see any big changes, but I'm definitely seeing incremental improvement in the mix in Africa.

Sahil Kedia, BofA Merrill Lynch, Research Division - VP [72]

Okay. And in terms of country-wise, this share, so I understand what you said about Nigeria improving hence drive a much higher overall weightage on the numbers, but how are some of the other markets that you have entered recently? How have they scaled up? Are they in line with your expectations going up? I mean, can you give some sense of how important they have become? I know probably this year, the share will be lower considering that Nigeria has done well, but can you just give us some color on really how they're doing?

Rakesh Sharma, Bajaj Auto Limited - Chief Commercial Officer & Additional Whole Time Director [73]

Well, actually, it's not just the Nigeria story. We have got a lot of significant presence in East Africa, which is Kenya, Ethiopia, Uganda and Tanzania, Sudan to some extent, but Sudan is a smaller player. We have done extremely well in this geography, which collectively is almost equal to Nigeria. For example, our market share in Uganda is today at 95%; our market share in Kenya is about 42%, 45%; our market share in Ethiopia is upwards of 60%, I think, 65% or something. There is a little bit of a changeover in the route to market in Tanzania, but we should be restoring our market shares there soon. So East Africa and also I must point out Democratic Republic of Congo, which is again a very big emerging market where we do about 5,000 to 6,000 units and the next competitor does 1,200 units, that's also doing extremely well. Our only troubled area amongst the large market is the West African market, the Francophone part of West Africa, which is West of Nigeria I'm saying. This is fairly large. I think the history of this place is that we had issue with our trademarks had been registered by somebody else and we had to fight a long drawn battle to get our trademarks back. We got it back about 18 months back and we sort of made an entry only 18 months back. And in the meantime, competition is pretty entrenched over there. These are large markets. Now this is the market where we are struggling a little bit. And I think it's going to be -- it will take 2 to 3 years for us to sort of bring it to a very good respectable level of market share. So I would say Francophone, Africa part, which would probably be 30% of Africa. 70% of Africa, we are right on top with very dominant market share and seeing very good growth.

Operator [74]

The next question is from the line of Kapil Singh from Nomura Securities.

Kapil R. Singh, Nomura Securities Co. Ltd., Research Division - Auto Analyst [75]

Just one clarification. You mentioned that the Platina volumes are overtaking CT volumes.

Rakesh Sharma, Bajaj Auto Limited - Chief Commercial Officer & Additional Whole Time Director [76]

Not overtaking, growth, Kapil.

Kapil R. Singh, Nomura Securities Co. Ltd., Research Division - Auto Analyst [77]

Okay, okay. I misunderstood that because the volumes are almost double over there. And how do you expect the CT volumes to shape up? Have they reached a level where you are comfortable? Or you see them ramping up further from these levels?

Rakesh Sharma, Bajaj Auto Limited - Chief Commercial Officer & Additional Whole Time Director [78]

My call basically is that the CT volumes will remain by and large static at this particular point of time, but we will see significant improvement in the Platina because we plan to come out with some more changes in the Platina.

Kapil R. Singh, Nomura Securities Co. Ltd., Research Division - Auto Analyst [79]

Okay. Okay. And same thing, we took some actions in the Pulsar segment as well. So how -- what kind of results are they delivering?

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

They're doing very well because what we're seeing is in the overall Pulsar, the numbers have gone up to about 80,000 numbers and there, we're seeing the major portion of the sales that is taking place is around the high profitable Twin Disc model. The entry-level for Pulsar or what we call the Pulsar Classic has been able to add about 7,000 to 8,000 numbers extra, and I'm talking of September. If I take the average for the quarter, 6,000 numbers. That is giving us a lot of encouragement and they seem to upgrade the Classic with some new designs and features, et cetera, which may be able to enhance it further. So I won't be surprised that getting into the fourth quarter, the current calendar financial year, we should be also sitting at about 90,000 numbers.

Kapil R. Singh, Nomura Securities Co. Ltd., Research Division - Auto Analyst [81]

Okay. Okay. And lastly, just wanted to check on the competitive intensity in export markets. How is it shaping up?

Rakesh Sharma, Bajaj Auto Limited - Chief Commercial Officer & Additional Whole Time Director [82]

We -- I mean, there is no significant change. The competitive intensity remains the same. There is -- if at all, there is a little bit of a pricing pressure continuously from the Indian competitors. So you know how that we have Japanese competitors, Chinese and Indian largely in the mass market. The Japanese and Chinese have not really changed their strategies too much. I'm giving you a broad brush sort of overview. There may be 1 or 2 markets here and there. I know that Yamaha has sort of been very aggressive in 1 or 2 Latin American countries, maybe it's a local initiative. But we don't see that much change. But, yes, we are finding consistently TVS and Hero underpricing compared to us in almost all the markets. So there we -- but that is not a new phenomena, that is something which has been there for about 18 -- I mean, for a couple of years, I have definitely observed that. So no change in competitive intensity.

Kapil R. Singh, Nomura Securities Co. Ltd., Research Division - Auto Analyst [83]

And we've not really changed our pricing in export markets?

Rakesh Sharma, Bajaj Auto Limited - Chief Commercial Officer & Additional Whole Time Director [84]

No. Largely, we've not changed our pricing. There were a couple of markets here and there where we have a significant presence and if we feel that the market is in distress and we need to do something to the price to stoke the demand, then we will do that. But we've not really changed any pricing majorly, upwards or downwards.

Operator [85]

The next question is from the line of [Sandeep Menon] from Franklin Templeton.

Unidentified Analyst, [86]

In -- during the December '14 Investor Day, you had shared an idea of the end markets, export markets for 2-wheelers, could you give a broad idea of what is the size of these markets? And other thing is, is it fair to assume that Africa is the main region, which will grow because all other regions are fairly mature in terms of per capita income and penetration, 2-wheeler penetration?

Rakesh Sharma, Bajaj Auto Limited - Chief Commercial Officer & Additional Whole Time Director [87]

See, from a growth point of view, actually the penetration is not yet reached maturity levels in most of the emerging markets, apart from some of the lower tiger economies of ASEAN, Taiwan, bit of Indonesia, Thailand and these places, where we're seeing penetration has largely been done. South Asia which is Nepal, Bangladesh, Sri Lanka, Middle East, Egypt, Iran, Iraq, all these areas, penetration is still low. Africa, the penetration is low. Latin America also higher than Africa, but penetration is still low. So if there is a supportive macroeconomic environment and currencies are not too volatile, political there is no major revolutions and all that, then largely we see outside of ASEAN, in South Asia, Middle East, Africa and LatAm, positive growth. Africa will continue to outstrip, but we see this as a very positive growth. In terms of the market size, overall I'm only talking about the markets, which we are in right now. So we're not in China and we're not in Brazil out of the big geographies. The rest of the emerging markets southern hemisphere, we count all of that in. So if I keep that away, then the overall market size is about 6 million, 6.5 million units of motorcycles, I'm not talking about scooters or [step tools]. And in that, as you can see, we have almost 30% market share.

Operator [88]

The next question is from the line of Sonal Gupta from UBS securities.

Sonal Gupta, UBS Investment Bank, Research Division - Director and Research Analyst [89]

I just had a couple of housekeeping questions. Sir, could you tell us the spare part revenues for exports and domestic for this quarter?

Rakesh Sharma, Bajaj Auto Limited - Chief Commercial Officer & Additional Whole Time Director [90]

Spare parts for the quarter you want it, it is for exports, for domestic, it is INR 567 crores.

Sonal Gupta, UBS Investment Bank, Research Division - Director and Research Analyst [91]

INR 567 crores.

Rakesh Sharma, Bajaj Auto Limited - Chief Commercial Officer & Additional Whole Time Director [92]

INR 567 crores and for exports, it's INR 243 crores.

Sonal Gupta, UBS Investment Bank, Research Division - Director and Research Analyst [93]

INR 243 crores.

Rakesh Sharma, Bajaj Auto Limited - Chief Commercial Officer & Additional Whole Time Director [94]

As against the first quarter it was [INR 62 crores] we have seen a very good growth in spare parts in quarter 2 and in exports it was INR 185 crores, going up INR 443 crores.

Sonal Gupta, UBS Investment Bank, Research Division - Director and Research Analyst [95]

Right, sir. Right, sir.

Rakesh Sharma, Bajaj Auto Limited - Chief Commercial Officer & Additional Whole Time Director [96]

Quarter-on-quarter, overall spare parts has grown by 20%.

Sonal Gupta, UBS Investment Bank, Research Division - Director and Research Analyst [97]

Right, sir. And just on the auto export revenues in rupees, could you give that?

Rakesh Sharma, Bajaj Auto Limited - Chief Commercial Officer & Additional Whole Time Director [98]

In total rupees, if I was to take the total exports, it stands at about INR 7,132 crores plus INR 243 crores of spare parts.

Sonal Gupta, UBS Investment Bank, Research Division - Director and Research Analyst [99]

Sorry, for the Q2?

Rakesh Sharma, Bajaj Auto Limited - Chief Commercial Officer & Additional Whole Time Director [100]

For the Q2, yes. So it just takes INR 7,086 crores of vehicle exports and INR 243 crores of spare parts exports.

Sonal Gupta, UBS Investment Bank, Research Division - Director and Research Analyst [101]

INR 7,000 crores. Isn't that, I mean, like for the -- you're giving for the first half, I thought like INR 7,000 crores is a...

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

One second -- sorry, sorry. I stand corrected, please, please, please, I stand corrected. Exports is INR 2,879 crores. And of that, you'll have to add spare -- exports of INR 243 crores.

Sonal Gupta, UBS Investment Bank, Research Division - Director and Research Analyst [103]

Okay. Plus INR 243 crores for the spare parts.

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

I stand corrected, sorry.

Sonal Gupta, UBS Investment Bank, Research Division - Director and Research Analyst [105]

Okay. And sir just on the financing side, in the domestic market, how are we seeing the trends, any issues we're seeing?

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

No. Fortunately for us, we've got Bajaj Finance that is well-capitalized and there are no shortage of funds whatsoever. So I think, on financing, Bajaj Auto is not facing any difficulties whatsoever. And I would say that auto finance has been extremely well, doing extremely well right now. In fact what I understand from my colleague, Mr. (inaudible) that in September they had a penetration level of almost about 48%.

Sonal Gupta, UBS Investment Bank, Research Division - Director and Research Analyst [107]

Okay, okay. And just lastly, have we taken any price increases in domestic motorcycles from October?

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

We did it on 1st and 2nd of November -- October. We did that. What -- we had about INR 500 to INR 1,000 on a motorcycle and about INR 1,500 to INR 2,000 on a 3-wheeler.

Operator [109]

The next question is from the line of Ashutosh Tiwari from Equirus Securities.

Ashutosh Tiwari, Equirus Securities Private Limited, Research Division - Research Analyst [110]

(inaudible) classic on the last one to 8,000 what was the amount for this Twin Disc [reamed]?

Kevin Pius D'Sa, Bajaj Auto Limited - President of Finance & CFO [111]

I would say that it is -- approximately, the Twin Disc variant is about 40% of the total sales.

Ashutosh Tiwari, Equirus Securities Private Limited, Research Division - Research Analyst [112]

Okay, but going ahead, we're seeing that...

Operator [113]

This is operator, Mr. Tiwari, may we request you to use the handset, please. Your voice is echoing.

Ashutosh Tiwari, Equirus Securities Private Limited, Research Division - Research Analyst [114]

Is it better, now?

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

Yes. It is better.

Ashutosh Tiwari, Equirus Securities Private Limited, Research Division - Research Analyst [116]

Do you see the classic variant sales in terms of contribution to the Pulsar growth worse in the next 2 or 3 quarters? Or do you think that will (inaudible) 10% or so?

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

I would say that there would be certain activities being done on Pulsar Classic, they may be coming up with, I think, Rajiv will correct me some graphics and all that will take place. So I would say that the growth of the Classic will be higher than the growth of the overall Pulsar portfolio. And hence while overall number of the Pulsar has reached close to 90,000 in Quarter 4, the percentage of the low end Classic may go up inch up by 1% or 2%.

Ashutosh Tiwari, Equirus Securities Private Limited, Research Division - Research Analyst [118]

Okay. And if we look at volumes of Pulsar 180 or 160cc, basically we think, there the volumes have come down. So I think the Twin Disc is impacting the sales of that variant. So how do you see that, and that segment, particularly?

Rakesh Sharma, Bajaj Auto Limited - Chief Commercial Officer & Additional Whole Time Director [119]

Well, what we look at it is in the total portfolio and the total profits over that. So what we try to ensure is while we have this vehicle, overall profitability is always increased. So if they switch from Product 1 to Product 2, while the percentage may make a difference, the actual profit by and large remain intact.

Ashutosh Tiwari, Equirus Securities Private Limited, Research Division - Research Analyst [120]

Okay. And lastly, on the 3-wheeler exports and they're doing almost 1 lakh per quarter now. How do you see that shaping over, say, next 6 or 8 quarters?

Rakesh Sharma, Bajaj Auto Limited - Chief Commercial Officer & Additional Whole Time Director [121]

Three-wheeler exports is expected to remain steady at this level. So we don't expect it to really shoot up or anything, but it's pretty steady business at about 30,000 units and we think that's sort of will come in that.

Ashutosh Tiwari, Equirus Securities Private Limited, Research Division - Research Analyst [122]

And which countries are basically -- trading the growth is it still led by Africa only. I mean, [are they rich or some recovery seeing in] other places also?

Rakesh Sharma, Bajaj Auto Limited - Chief Commercial Officer & Additional Whole Time Director [123]

No, no, no. Actually, there has been a significant change in the composition of the 3-wheeler business. It's not Africa, which drives the 3-wheeler thing. It's really -- it's very, very widespread now because the last 2, 3 years we've been investing a lot of market development effort. So we've got big growth in ASEAN, basically Philippines and Cambodia and all that. We are doing about 3,000 units. We've got a big market in Egypt and Iraq, which is the Middle East let's say that contributed -- that started contributing 10,000, 11,000 units. There's always the South Asia, which is actually come down, but there is Bangladesh, Nepal is a new market, Sri Lanka and some new markets in Latin America. Nigeria has moved up. So I would say the quality of the 3-wheelers portfolio in terms of countries is now very, very widespread with about 25% of the 3-wheeler sales coming from markets, which we have entered in the last 2 to 3 years, and which will, I think, continue to drive the growth going forward.

Ashutosh Tiwari, Equirus Securities Private Limited, Research Division - Research Analyst [124]

And lastly, if I may ask...

Operator [125]

This is the operator. Mr. Tiwari, may we request you to come back in the queue for a follow-up.

Operator [126]

The next question is from the line of Jay M. Mehta from Edelweiss Securities.

Chirag Shah, Edelweiss Securities Ltd., Research Division - Research Analyst [127]

Yes. This is Chirag here. So 2 questions. One, on the exports, so just a clarification for FY '20, what would you be your base rate final and I presume it would be more of a range forwards for you.

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

As going to FY '20, I would have to take a curve about yes, and the finance team what we'd like to see is the rupees start appreciating from now onwards, we may start taking the cover. So my view is that on an average, I would look at about 72 minimum to get for the next year.

Chirag Shah, Edelweiss Securities Ltd., Research Division - Research Analyst [129]

And just a follow-up onto advertisement spend you alluded to that. So how does the accounting of this 333 or 555 scheme work for you? Is it a part of your ad spend or is it netted off in your revenue?

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

No. It's part of the ad spend.

Chirag Shah, Edelweiss Securities Ltd., Research Division - Research Analyst [131]

And generally, these schemes would add up how much on an annualized basis it would go up by how much versus a normal budget?

Rajiv Nayan Rahulkumar Bajaj, Bajaj Auto Limited - MD, CEO & Executive Director [132]

Let me just clarify this thing. The total amount that we're talking about is all part of total ad budget that Rakesh has got himself mentioned for the whole year. Now in that Rakesh decide whether it's direct to the customer through a scheme or whether some amount should be spent to the television mode. So the overall budget for the whole year is already fixed as a percentage of sales. Next question comes in, how much of this gets netted out from revenue and how much is netted out from the social expenditure. Whatever is the amount spent directly to a product, say, for example, insurance that amount will get netted out from the sales under 115. So therefore, in quarter 2, for example, under the scheme, amount that went directly to the customer of about INR 28 crores was not being shown in the expenditure, but has got netted out from the revenue.

Chirag Shah, Edelweiss Securities Ltd., Research Division - Research Analyst [133]

Okay. This is helpful. And sir, just one last follow-up. And so what I understand is that, there is no likely to be further aggression in terms of incentivizing customer from the current levels that we are, especially in the M1 category. So is it right that the level of incentivization that you intend to use for customers is stable at this point of time? Or there could be further increase in this activity that.

Rakesh Sharma, Bajaj Auto Limited - Chief Commercial Officer & Additional Whole Time Director [134]

We will do everything possible to incentivize the customer, but that will be from products and not necessarily from price.

Chirag Shah, Edelweiss Securities Ltd., Research Division - Research Analyst [135]

Okay. No, I was more coming from the fact that, there seems to be some knockdown on margins on certain products because of the strategy that you have adopted.

Rakesh Sharma, Bajaj Auto Limited - Chief Commercial Officer & Additional Whole Time Director [136]

Like I said the M1 segment of and that too only on the CT, which is 14% of my revenue, nothing else, 86% remains intact.

Chirag Shah, Edelweiss Securities Ltd., Research Division - Research Analyst [137]

Even in CT, we can assume that a level has been achieved, it doesn't seem to be a further case of major incentivization.

Rakesh Sharma, Bajaj Auto Limited - Chief Commercial Officer & Additional Whole Time Director [138]

No. If you have meaning -- referring to only fiscal incentives for the customer, that's -- what you're saying is correct. In fact, as Kevin pointed out earlier, there has been actually price increases on CT also in October. But having said that, I don't want to bind ourselves into this because let's say the competitive scenario completely changes in December or Jan, we will probably respond, but as things stand now, 1st of October, we increased prices on CT.

Chirag Shah, Edelweiss Securities Ltd., Research Division - Research Analyst [139]

Yes. And just one last, on the Qute front, do you think is there any risk of some cannibalization with 3-wheeler?

Rakesh Sharma, Bajaj Auto Limited - Chief Commercial Officer & Additional Whole Time Director [140]

It's a very new category. And certainly, there will be some cannibalization, but it will be marginal. From our experience in overseas businesses, we find that the cannibalization is actually very, very marginal because it tends to open up a new segment that people will jump straight -- people who've not -- don't get into 3 wheelers because they want a better status product, they get into Qute. There are certain areas where the 3-wheelers are not allowed, that opens up with Qute. But how it unfolds in domestic business, frankly, we have to see. We will be watching this very, very carefully, state-by-state. So let's see how that sort of, but we don't expect it to be significant, it will be there, but marginal, and let's see how it sort of occurs.

Operator [141]

(Operator Instructions) The next question is from the line of Hitesh Goel from Kotak Institutional Equities.

Hitesh Goel, Kotak Securities Limited, Research Division - Associate Director & Automobile Analyst [142]

So I just wanted to ask in the African market, have you seen Chinese also becoming aggressive because they're also getting some gains on the U.S. dollar right. So I just want to check the pricing scenario from the Chinese versus Indian.

Rakesh Sharma, Bajaj Auto Limited - Chief Commercial Officer & Additional Whole Time Director [143]

Like I've said before, Chinese are underpriced to us, but we have not seen a shift in the Chinese pricing strategy between, let's say, 6 months back and now. That is really not -- on an overall sense we've seen.

Hitesh Goel, Kotak Securities Limited, Research Division - Associate Director & Automobile Analyst [144]

Okay. And sir, my other question was on the basically the domestic market. This 55 scheme, like you said, basically is basically some part is getting netted off, the insurance part is getting netted off from revenue and on the warranty and all, it will be netted from expenses, right? So will that be a hit on the margins in third quarter because this was launched on 5th October? Anything there?

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

Can you just repeat the question, please.

Hitesh Goel, Kotak Securities Limited, Research Division - Associate Director & Automobile Analyst [146]

I assume this 555 scheme, which was launched in the Dussehra and Diwali season, so this will have a greater impact on margins in the third quarter as compared to second quarter because you had this rupee gains in third quarter, how should we look at it?

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

Look what I said was, the -- I have built the vehicles in the second quarter, correct?

Hitesh Goel, Kotak Securities Limited, Research Division - Associate Director & Automobile Analyst [148]

Yes.

Kevin Pius D'Sa, Bajaj Auto Limited - President of Finance & CFO [149]

I've been stocking since September. Now the retails takes place in October and November. So we will be having almost about 5 lakh motorcycles sold in October and November. The 55 scheme benefits at retail level. So the payout of this 555 scheme will be much, much more higher in the second quarter.

Hitesh Goel, Kotak Securities Limited, Research Division - Associate Director & Automobile Analyst [150]

Okay, because you've already given the dealers the payout in the second quarter?

Kevin Pius D'Sa, Bajaj Auto Limited - President of Finance & CFO [151]

No, no. It will be much higher in the third quarter.

Hitesh Goel, Kotak Securities Limited, Research Division - Associate Director & Automobile Analyst [152]

Third quarter, right. So that is what I was asking, yes.

Rakesh Sharma, Bajaj Auto Limited - Chief Commercial Officer & Additional Whole Time Director [153]

Building will not be up by like numbers, because the incentive is on retail and not on building, then we will slightly miss margins.

Operator [154]

The next question is from the line of Gunjan Prithyani from JPMorgan.

Gunjan Prithyani, JP Morgan Chase & Co, Research Division - Analyst [155]

I have 2 follow-ups. Firstly, on this financing, which you shared 48%. Has this materially changed for you in last 6, 9 months given the volume growth is more coming from the entry segment? And also how much would Bajaj Finance be of your total volumes financed?

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

Ma'am, as I've said, in the month of September, Bajaj has a penetration of 48%. That means 48% of the vehicles got financed through Bajaj Finance. I see Bajaj Finance growing from an average of about 41%, 42% to about 48% in September. But at the same time, I would like to add that we have introduced other preferred financials into our system, including L&T Finance, including a few other big financials. So I would put it approximately about 50%-plus of our total vehicles will be financed through organized financials.

Gunjan Prithyani, JP Morgan Chase & Co, Research Division - Analyst [157]

Okay. Got it. And secondly, this new product launch, which you referred to in the M3, could -- can you share something around it like is it going to be in the -- in one of the existing plans? Or what is going to be the positioning? And when can we expect anything around it? Any time line?

Rakesh Sharma, Bajaj Auto Limited - Chief Commercial Officer & Additional Whole Time Director [158]

What I mentioned is in terms of [Kevin is the third] line of margins and [the same thing over the] next 2 to 3 years and that's why I said, while I'm really absent in the entry segment today, going forward, we will certainly put in a vehicle in the entry segment, what that vehicle is, whether it's going to be a new brand, new vehicle altogether, at this particular point of time, we'll not be able to share.

Gunjan Prithyani, JP Morgan Chase & Co, Research Division - Analyst [159]

Okay. And last question on the CapEx. Can you give some guidance? What will be for FY '19?

Rakesh Sharma, Bajaj Auto Limited - Chief Commercial Officer & Additional Whole Time Director [160]

At this particular point in time, it's work in progress, but I would estimate it to be a total figure of approximately about INR 300 crores, which will include total CapEx for debottlenecking, for R&D as well as for a new die tooling for new models.

Operator [161]

The next question is from the line of Raghunandhan from Emkay Global.

Raghunandhan N. L., Emkay Global Financial Services Ltd., Research Division - Senior Research Analyst [162]

Kevin sir, I had a query. Can you share the profitability of domestic 2-wheeler and exports?

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

No. We don't share that individual division wise, we don't share, please.

Raghunandhan N. L., Emkay Global Financial Services Ltd., Research Division - Senior Research Analyst [164]

I mean, approximate range as to like generally like 3-wheelers exports used to have 32%, 35%, domestic 3-wheeler was 25% to 30% and export 2-wheelers was about 20%. So a broad range, if you can share, that would be helpful.

Kevin Pius D'Sa, Bajaj Auto Limited - President of Finance & CFO [165]

I would be more than happy to share that. As I've always mentioned in exports, we are well over the 20% mark. In 3-wheelers, we are well over the 20% mark. In spare parts, we are well over the 20% mark. In the sports segment that is the Pulsar family very close to the 20% mark.

Raghunandhan N. L., Emkay Global Financial Services Ltd., Research Division - Senior Research Analyst [166]

Understood, sir.

Kevin Pius D'Sa, Bajaj Auto Limited - President of Finance & CFO [167]

That's 75% of our business.

Raghunandhan N. L., Emkay Global Financial Services Ltd., Research Division - Senior Research Analyst [168]

Got it. sir. And how -- where would be Platina, that would be single-digit margin?

Kevin Pius D'Sa, Bajaj Auto Limited - President of Finance & CFO [169]

Single-digit margin.

Operator [170]

The next question is from the line of [Vijay Ganjandani] from Elara Capital.

Jay Kale, Elara Securities (India) Private Limited, Research Division - Analyst [171]

This is Jay Kale. So I just wanted to understand in terms of your festive demand, you mentioned that Dussehra has been relatively softer than the earlier part. So would this softness being largely led by the rural market, say from the first 6 months versus the Dussehra festival?

Rakesh Sharma, Bajaj Auto Limited - Chief Commercial Officer & Additional Whole Time Director [172]

The softness in the Dussehra period of the festival is actually -- the news we're getting is right across. It's not really dependent on rural or urban classification. State wise, we feel that Gujarat, Maharashtra, these places are -- the West has been a little bit more soft than the North.

Jay Kale, Elara Securities (India) Private Limited, Research Division - Analyst [173]

Okay. Okay. Got it. Sir, just on your exports part, you mentioned that Latin America versus Africa, I just wanted to get a sense of the difference in competitive intensity between the 2? I guess, would Africa be a little more competitive in terms of since you sell the Boxer and there are a lot of Chinese players over there compared to say LatAm markets where your Pulsars would be selling more. Would that be a fair assumption?

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

Yes. Actually, the Latin American markets are more competitive. And by competitive, I mean because you're competing on multiple dimensions, you're competing on brand is much more important over there, pricing, of course, there are multiple products, et cetera. In addition to that, we have the Japanese as a factor over there, who are not so big in Africa. So we compete with Indian, Chinese, Japanese in Latin America. So I would say, Latin America though smaller market is more competitive market.

Jay Kale, Elara Securities (India) Private Limited, Research Division - Analyst [175]

Okay. Got it. And just last one on your Pulsar portfolio, your Classic portfolio, as you said, it's just kind of contributes around 7,000 to 8,000. From a strategy perspective, don't you think that it could -- does it do smaller volumes to risk your brand dilution of Pulsar. And if your Twin Disc is giving you much higher volumes, why not kind of focus on the higher end of Pulsars rather than diluting your brand on lower end without contributing much to the volumes?

Rakesh Sharma, Bajaj Auto Limited - Chief Commercial Officer & Additional Whole Time Director [176]

It's a good point. And this is always a dilemma when you're trying to stretch the brand and trying to expand the segment because that we have 40%-plus market share in the segment. And if we expand the segment, then we get a disproportionate share of that expansion. So it is important to expand the segment. But we've got to balance this tension between the brand and trying to take it at least when we expand it downwards to be careful about it. So we are trying to do that in a little bit of a clever way, I think, which you'll see in the next couple of months. Trying to take the Pulsar Classic more into the zone of younger people and that kind of thing through how the product will be presented. So I think, this is right. So it's not really a cheaper Pulsar. It will be a different Pulsar and positioned very differently. So it's still like a sideways movement rather than a downward moment in terms of how the product is presented. And our strategic objective is to hit the more commuter-ish 150cc bikes, which are slightly cheaper than from the Honda portfolio and also to take up the 125cc customer, younger customer in the 125cc who wants to take a 150cc, but the pricing is just slightly away. So we're attempting that with the Classic. So -- and we're conscious of this point that whatever we do, it should not sort of take away from the fundamental Pulsar equity.

Jay Kale, Elara Securities (India) Private Limited, Research Division - Analyst [177]

Right. And just lastly -- in terms of your domestic 2-wheeler margins, do you think you've seen bottom of your margins currently with commodity price, I mean, give or take one or more quarter where there is lag of other expenses, but from a margin perspective on the domestic 2-wheeler side, do you think this is the bottom end and things should only improve going forward because exports...

Rakesh Sharma, Bajaj Auto Limited - Chief Commercial Officer & Additional Whole Time Director [178]

As I said the mix is going to improve in our favor. I've maintained the CT 100 has reached what we would say peak and the growth is going to come from Platina. The growth is going to come from Pulsar. We have taken those prices up in the case of CT 100. So my view is basically the motorcycle, the domestic motorcycle division profitability should improve from here on. Again, sorry -- again, don't hold me on a quarter-to-quarter basis because 555 scheme in this quarter may hurt the domestic motorcycle much more than what it did in the quarter 2.

Operator [179]

The next question is from the line of Basudeb Banerjee from AMBIT Capital.

Basudeb Banerjee, AMBIT Capital Private Limited, Research Division - Research Analyst & VP [180]

First question is more of a long-term understanding the bulk of market share, which Bajaj gained this year. Definitely, Pulsar has moved up all the way from 55,000 to 80,000-plus, but the entry-level M1 segment as you said, your target market share, you have almost achieved that, led by incentivization for -- partly. In the longer run, once you have gained the market share, then how do you see the demand elasticity with gradual price hikes? So once you have got the loyal customers, if you start again taking price hikes in CT 100 gradually and going back to the erstwhile pricing, do you see a risk of losing out the loyal customers?

Rakesh Sharma, Bajaj Auto Limited - Chief Commercial Officer & Additional Whole Time Director [181]

It will be a judgment call in the sense these things are dependent on judgment between how much -- how to -- in what size of steps to take the customer upwards. CT was actually -- it's a very classic and a very renowned and clustered and old brand of Bajaj. So that's a big plus in our favor and we've gone out of CT got reintroduced and it immediately got very, very well accepted. And of course, the hammer was the pricing and we took that in. But we're conscious that there is a very old equity for CT, but that doesn't mean we can just straightaway start taking the prices because we are selling to tens of thousands. It will be a judgment call. We'll have to take it in small steps and see how we can lead the customer upwards. We will keep -- we'll try to buttress this impact by also having some incremental innovation, try to give the customer a little bit something which they can value in CT and use that as a lever to take it up. So that's the way we will work CT in incremental and small steps.

Basudeb Banerjee, AMBIT Capital Private Limited, Research Division - Research Analyst & VP [182]

Just thinking from the angle that your incentivization of CT coincided with rupee weakening at accelerated pace and exports also doing fabulously well. So if the exports and favorable currency turns adverse sometime down the line, will you be able to continue with the incentivized rates for CT because today your margin moved down from 20 to 18, maybe if currency goes adverse then 18 can also become lower theoretically. So how to look at that?

Rakesh Sharma, Bajaj Auto Limited - Chief Commercial Officer & Additional Whole Time Director [183]

You must understand the strategy was independently developed, but, of course, when we look at the scenarios and the outcomes of the strategy and we put all the -- everything together in the P&L, we do take overall corporate view that's always, but the domestic CT strategy and the Pulsar strategy was independently developed at a time when the 73 business was not even on the horizon, which was January, February when the thinking was taking place. So it's not that we saw this statement coming in any case as you know, it's not as if we've got the 73 in our bag. We're only getting 69 right now in our bag, right. So we're quite driven by the fact that we have to substantially increase our market share, and we are doing that through a combination of -- we're doing that by focusing on the entry segment and the sports segment through a combination of price and product innovation in these 2 segments. So we will continue to soldier on the up and down of the margin -- of the rupee will have to be watched, but it will not play the decisive role in shaping the strategy.

Basudeb Banerjee, AMBIT Capital Private Limited, Research Division - Research Analyst & VP [184]

Sure, sir. And second question as you said, that post this sudden knee-jerk reaction of insurance premium increase so it will be a transitionary phase of 4, 5 months for the customers to get used to, but now in coming almost 18 months, we will see 2 such transitions of safety norms coming in and again BS VI coming in. So after this insurance things normalizing, your destocking happening after festive season, by the time your safety norms will come into picture and then again some prebuying before BS VI, again, the post-BS VI transition phase will happen. So in that prolonged phase where industry will go through such turbulent decisive scenario, do you see the overall incentives to sales in FY '20 further increasing as you must have increased in FY '19?

Rakesh Sharma, Bajaj Auto Limited - Chief Commercial Officer & Additional Whole Time Director [185]

No. I don't think that this turbulent period, as you call it, where it can be addressed by incentivization. In fact, in answering to one of the queries, Kevin did mention that there will be some advancement of sale in '19, '20 because now people have gone through this one cycle. The dealers have gone through this one cycle. One good thing is that there is some certainty. Last time, when it happened with all the Supreme Court interventions in the last minute and all those things, and the interpretations of what does changeover mean being very, very fluid, that caused a lot of uncertainty in the supply chain of every OEM. This time because of the past experience and very advanced clarification of Supreme Court, which has come yesterday, at least there is certainty on what that changeover means. So that will remove some of the uncertainty. But yes, there will be these changes. I think the manufacturers will have to through dealers and directly educate the customers. I don't think these things can be addressed through simple finance, fiscal incentives.

Operator [186]

This is operator. Mr. Banerjee, may we request you to come back in the queue with the follow-up, please.

Rakesh Sharma, Bajaj Auto Limited - Chief Commercial Officer & Additional Whole Time Director [187]

Kevin, yes?

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

Maybe, we will stop at the last 3 questions, please.

Operator [189]

(Operator Instructions) The next question is from the line of Priya Ranjan from Antique.

Priya Ranjan, Antique Stockbroking Ltd., Research Division - Research Analyst [190]

My question is on CT 100 volume. When we talk about the profitability of that model, I mean, there has to be some volume where probably at 120,000 a month or 150,000 a month because my guess is that the product will not be loss at contribution level. So at 120,000, 150,000 if we're able to achieve that, then probably the product can itself become a profitable without taking too much of pricing actions. So my first thought on that. And second is on the -- there is lot of media rumors on 125 KTM. So will it be the separate strategy -- product strategy from the -- what we're talking about the M3?

Kevin Pius D'Sa, Bajaj Auto Limited - President of Finance & CFO [191]

No as far as the M3 is concerned and when we are talking about it, there is no question of KTM being a part of the M3 at this point in time. And as far as the KTM 135 rumors are concerned, let it -- yes, it has rumors as of now, nothing from our side, no comments from our side. As far as your first question is concerned, at what point of time we will consider the CT 100 becoming neutral in terms of breakeven, et cetera, that we will not share. But yes, if CT grows from 80,000 to 120,000, we will be thrilled.

Priya Ranjan, Antique Stockbroking Ltd., Research Division - Research Analyst [192]

Yes. And just coming back to that so -- we have always stated like probably our market sales should be around 23%, 24%. So any time line or something we want to achieve it by, say, in FY '20 or so?

Rajiv Nayan Rahulkumar Bajaj, Bajaj Auto Limited - MD, CEO & Executive Director [193]

We have always said that the first target that we have. And the 24% that we're talking about was at the exit point of March. It's not for the whole year basis. So fortunately for us, that exit point of September from 15, we have moved to 20. Hopefully, if all things go well second half from 20 we should go to 24 like I said this is aspirational, this is what we're targeting, it's not a situation that I can confirm we will reach.

Priya Ranjan, Antique Stockbroking Ltd., Research Division - Research Analyst [194]

And just on, I mean, one question on the market disruption, which we have been talking since last 2, 3 years that M1 will become bigger and M3 will become bigger and M2 might get stabbed off, sink significantly in the overall scheme of things. So do we see that kind of scenario emerging with BS VI, I mean, post BS VI, given the price differential might be much, much higher in M1 and M3?

Rakesh Sharma, Bajaj Auto Limited - Chief Commercial Officer & Additional Whole Time Director [195]

No comment on that because that's all speculative. But at least I can say historically if you go and see what's happening today, the reality is very much there. The M2 has actually shrunk almost 10%.

Last question, please.

Kevin Pius D'Sa, Bajaj Auto Limited - President of Finance & CFO [196]

Last question, then we need to end the call because Rakesh is a busy man.

Operator [197]

We'll take the next question from the line of Jigar Shah from Maybank.

Jigar Shah, Maybank Kim Eng Holdings Limited, Research Division - Head of Research of India [198]

My question pertains to whether Husqvarna will be launched this year? And also if there is any update on the Triumph relationship? And how it will be taken forward?

Rakesh Sharma, Bajaj Auto Limited - Chief Commercial Officer & Additional Whole Time Director [199]

So we are introducing the Husqvarna. We will begin by introducing the models sourced out of Austria. But the teams are already working in extending the partnership of design and development in India for the Husqvarna brand itself. At this point of time, I cannot talk much more about the calendar of introduction of the new line of Husqvarna.

Kevin Pius D'Sa, Bajaj Auto Limited - President of Finance & CFO [200]

In terms of Triumph, our discussions are -- progress extremely well, and we are dotting the Is and crossing the Ts right now in terms of the way we will work. But both the R&D teams and manufacturing teams are already talking in detail. And as soon as we break down the protocols about way of working and all these things, we should be able to announce the whole thing formally in few months' time.

Jigar Shah, Maybank Kim Eng Holdings Limited, Research Division - Head of Research of India [201]

And one last thing on KTM, I think, the performance in the second quarter was very good. So any comments, any outlook for KTM in the rest of the year?

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

The second quarter and the third quarter results, which are yet to be announced, but which we have access to, has also been extremely encouraging. The first quarter that we saw was a little bit low because of the overstocking that took place in the fourth quarter -- fourth year quarter as in the fourth calendar year for them. And therefore, they collected the stocks in the first quarter. Second quarter, as you have said, is very good and the third quarter as the results that we have just seen is also very, very good.

Thank you everybody for the interest. Thank you. And over to you all please, Aditya?

Aditya Jhawar, Investec Bank plc, Research Division - Analyst [203]

Yes. Thanks a lot sir for the opportunity.

Operator [204]

Thank you very much, sir.

Rakesh Sharma, Bajaj Auto Limited - Chief Commercial Officer & Additional Whole Time Director [205]

Thank you.

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

Thank you.

Operator [207]

Ladies and gentlemen, on behalf of Investec Capital Services, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.