

Q2 2020 Bajaj Auto Ltd Earnings Call

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Corporate Participants

* Rakesh Sharma

Bajaj Auto Limited - Chief Commercial Officer & Executive Director

* Soumen Ray

Bajaj Auto Limited - CFO & President of Finance

Operator [1]

Ladies and gentlemen, good day, and welcome to the Q2 FY '20 results call of Bajaj Auto Limited hosted by Emkay Global Financial Services. (Operator Instructions) Please note that this conference is being recorded.

I now hand the conference over to Mr. Raghunandhan N. L. of Emkay Global. Thank you, and over to you.

Raghunandhan N. L., Emkay Global Financial Services Ltd., Research Division - Senior Research Analyst [2]

Thank you, Stephen. Good afternoon, everyone. I would like to welcome the management and thank them for giving us this opportunity. We have with us today Mr. Rakesh Sharma, Executive Director; Mr. Soumen Ray, the Chief Financial Officer; and Mr. Sushant Joshi, the Divisional Manager, Finance.

As usual, we will directly start with the Q&A session.

Stephen, can you please start the Q&A session, please? Thank you very much.

Questions and Answers

Operator [1]

(Operator Instructions) The first question is from the line of Aditya J. from Investec.

Aditya Jhawar, Investec Bank plc, Research Division - Analyst [2]

Congrats on a good set of numbers. My first question is pertaining to gross margin. It would be great if you can give a breakup of gross margin expansion between commodity benefit and favorable product mix.

Soumen Ray, Bajaj Auto Limited - CFO & President of Finance [3]

So Soumen here. It is, primarily there are 3 components which have helped us. The product mix have certainly helped us to a large extent. So you can assume about 50%, 60% of the improvement coming from product mix. And the balance coming from price and material costs.

Aditya Jhawar, Investec Bank plc, Research Division - Analyst [4]

Soumen, if you could...

Soumen Ray, Bajaj Auto Limited - CFO & President of Finance [5]

I'm talking about sequential. So Q2 FY '20 over Q1 FY '20.

Aditya Jhawar, Investec Bank plc, Research Division - Analyst [6]

Okay, okay. Fair enough. And the bigger benefit of commodity, do you think that it could accrue in the subsequent quarters? Or the majority has been taken care of?

Soumen Ray, Bajaj Auto Limited - CFO & President of Finance [7]

The commodity costs will be benign in Q3. I get something in Q3. But the current view is that I think we might see some benefit in steel. But in nonferrous metals, we will have a headwind. So the question that needs answering between steel and nonferrous, how will the gap play out? My sense is that in Q3, we will get some tailwind, but we will have a headwind in Q4.

Aditya Jhavar, Investec Bank plc, Research Division - Analyst [8]

Okay. That's helpful. Soumen, secondly, on the discount in ad spend, if you give some perspective that what discount in ad spend was as a percentage of sales in Q2 versus the same period last year.

Soumen Ray, Bajaj Auto Limited - CFO & President of Finance [9]

So we would not be able to give you breakups beyond what we have shared, but I will clarify one doubt if you -- and this would be helpful to everybody. Last year, we were doing a lot of promotions. And as for accounting standards, some of the cost of those promotions gets knocked off from revenue. Let's say perhaps spent INR 100 crores and INR 20 crores is on promotion, then the INR 20 crore gets knocked off from revenue and on the P&L you only see INR 80 crores. This year, we have done far less promotion in line with the strategy of moving more into product and brands. And for advertisement there's been more, especially because we have launched CT 110, Platina 110 H and so on and so forth. So the [making up] on the top line has reduced and the expenses have increased. But beyond that specifics, I will not be able to share.

Operator [10]

(Operator Instructions). The next question is from the line of Pramod Kumar from Goldman Sachs.

Pramod Kumar, Goldman Sachs Group Inc., Research Division - Executive Director [11]

Congratulations on the good set of numbers. My first question is pertaining to the BS VI transition and how should one look at the -- in light of the BS VI transition how should one look at the second half dispatches from the company given that we have admitted to a 60-day plus inventory or thereabouts and that needs to come down materially. So how should one look at second half versus first half and from a volume perspective, sir?

Unidentified Company Representative, [12]

Thanks, Pramod. Thanks a lot for your compliment. The BS VI transition, there are several aspects to it. Technically, we are now fully prepared -- manufacturing while we are fully prepared. And the second aspect to it is the bleeding out of the BS IV and the bleeding in of the BS VI. The bleeding out of the BS IV has started in true earnest this month onwards as we've reached that we -- cost effective and start to reduce the stocks. 60-day stock at the beginning of the season is not abnormal. The -- I mean last year, if I look at it, 1st of October was almost exactly the same opening stock as we have had this year. And this year, in October, because the Diwali is early, the retails are expected to be higher than last year's retails because then the Diwali was in -- on I think 7th November or something. So that way, the 60-day level, 60-plus day level is not out of the ordinary. And we are going to take the opportunity of this month's retail to reduce the stock, which will then be back to normal levels progressively in November and December. So that in quarter 1, by the time we enter quarter -- calendar quarter 1, by the time we enter the March period, like BS IV is done and BS VI has been pipelined, that's our plan. And this is going to be worked model to model -- model by model kind of a thing.

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

And Rakesh, just on this question again, so you don't expect any meaningful change in your dispatch strategy or the dispatch numbers in second half because of the BS VI deadline as such? Is the understanding right?

Rakesh Sharma, Bajaj Auto Limited - Chief Commercial Officer & Executive Director [14]

Yes, so Pramod, this is the -- planned. And I think unless there is a total discontinuity either in terms of consumer behavior where there is a huge rally which of course would be very artificial of advancement of sale -- advancement of purchase by the consumer or there is a desperate move by competitors, we will not respond -- we will not sort of -- we'll have to respond to that, but either in price or in changing the dispatches. But that's purely if there is a discontinuous occurrence on the competition side or consumer behavior side. If there is a marginal change here and there, we will steer with our plan as we have decided.

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

And the second question is on the margin side to Soumen. Soumen, this quarter has been a fairly good one on the margin side because of product mix and pricing. So if you can just kind of throw some color as to how do you see the margin trajectory? Because given the fact that I think most of this product mix benefit should kind of continue even in the second half because it's a strategic thing led by the product action. So is this -- how would you kind of characterize the second half in terms of margin outlook versus what has happened in the first half, sir?

Soumen Ray, Bajaj Auto Limited - CFO & President of Finance [16]

So Pramod, I have been saying this consistently for the last 2 quarters. My mix is as the penny falls. So for some reason, if motorcycle business starts growing instead of declining at 25%, starts growing at 25%, my mix will -- my blended margin will decline. What I can tell you for a fact is it is unlikely that my segmental margins will decline significantly -- quarter. I cannot talk of Q4 because Q4 on the BS VI transition, what will pan out, how it will pan out, I do not know. But in Q3, roughly my segmental margins should be ranged both south and north. However, what will be the blended margin is basically how the penny falls. So that I cannot predict.

Operator [17]

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

Ashutosh Tiwari, Equirus Securities Private Limited, Research Division - Research Analyst [18]

Congratulations on good set of numbers. Sir, firstly, can you provide the export figure for the quarter in terms of INR? Hello? Hello?

Operator [19]

Members of the management, can you hear us? Ladies and gentlemen, the line from the management is disconnected. Please stay connected while we reconnect them.

(technical difficulty)

Ladies and gentlemen, we have the management line connected. Thank you, and over to you.

Rakesh Sharma, Bajaj Auto Limited - Chief Commercial Officer & Executive Director [20]

Sorry, I think we have a technical glitch. Please continue.

Ashutosh Tiwari, Equirus Securities Private Limited, Research Division - Research Analyst [21]

Sir, I just wanted to know the export figure for the quarter in terms of INR.

Rakesh Sharma, Bajaj Auto Limited - Chief Commercial Officer & Executive Director [22]

So the export figure for the quarter in INR is about 3,000 -- sorry, just a second. We are at about 3-1-2-3, INR 3,123 crores. Sorry, that was last year. And this year, it's INR 3,108 crores.

Ashutosh Tiwari, Equirus Securities Private Limited, Research Division - Research Analyst [23]

3-1-0-8?

Rakesh Sharma, Bajaj Auto Limited - Chief Commercial Officer & Executive Director [24]

Yes.

Ashutosh Tiwari, Equirus Securities Private Limited, Research Division - Research Analyst [25]

Okay. Secondly, the -- if I look at the receivables, they have come down from the March level. So we have provided some extra incentive deal with the -- freight rate the dealers have been -- so have we been cutting down that thing in this year so far?

Rakesh Sharma, Bajaj Auto Limited - Chief Commercial Officer & Executive Director [26]

No. We are -- so I think we are not changing any of our business strategy, but there is a way by which between the business is trying to ensure that the right level of credit is done. We've collected about INR 300 crores already. We expect to collect more. It has got nothing to do with restricting the number of days of credit that has been given to the dealers.

Ashutosh Tiwari, Equirus Securities Private Limited, Research Division - Research Analyst [27]

So we had provided some extra days earlier, I think the last year second half. So because it [maintained] a very high. So has that come down because...

Soumen Ray, Bajaj Auto Limited - CFO & President of Finance [28]

Yes, so our inventory has remained reasonably constant between June to September. And -
- so the amount of credit that I need to give to them to hold that inventory has been constant. There has been a play between speaking to the dealers, looking at institutional funding, doing some churn, making it credit for the dealers to bring in more cash. So multiple actions have been taken, which has resulted in this INR 300 crore reduction.

Ashutosh Tiwari, Equirus Securities Private Limited, Research Division - Research Analyst [29]

And lastly, sir, can you provide some color on demand right now? The reason why is in Quarter 2 of festivals?

Soumen Ray, Bajaj Auto Limited - CFO & President of Finance [30]

Yes. After the real savage declines of July and August, we started to see some kind of recovery from second half September. And what at least we are experiencing is that the declines seem to have bottomed out, and we are midway the season, and we are sort of neck and neck with last year. I'm comparing festive to festive, last year, for example, Dussehra was on the 15th and this year, it was on the 8th. So you have to compare 8th and 15th. So if we compare the festive calendar, we have seen this -- the [festival] definite bottoming out. And we are neck on neck with the previous year.

Now whether this is a festive trigger, which will sustain itself and lift the demand trajectory and sustain this level post the season, I must say, is something which we will have to wait and watch. It would be very hazardous to assume that this is the new normal and the decline is a thing of the past for the industry. I would sort of reserve my comments, observe November carefully and then compare. It could be that the economy and demand is not so broken as it was appearing in July and August, and it needed a trigger to jump it back to the normal level. But it could also be that there is a little bit of looming uncertainty of the changeover, which may cause postponement of purchase decision. So it is very difficult to say whether this 15-day recovery is permanent or just a festival phenomena.

Operator [31]

The next question is from the line of Rakesh Kumar from BNP Paribas.

Kumar Rakesh, BNP Paribas, Research Division - Analyst [32]

My first question is around the inventory levels, especially at the factory level. So during the quarter, you had a production of around 50,000 units higher than your wholesale numbers. And as you earlier said that your dealer inventory is around 50-odd days. Now how we should be looking at the production going into the December quarter, especially given the model year will be changing? And as you said while answering to Pramod, that you have already started reducing your BS IV inventory. So should we expect your production in the December quarter to be meaningfully lower than the wholesale numbers which we would be looking at?

Soumen Ray, Bajaj Auto Limited - CFO & President of Finance [33]

So I think fundamentally, what we need to understand is the -- my dependence on domestic motorcycles is only 40% of my organizational top line, which means a 10% or a 15% change in motorcycle production for me is only 4%, 6%. So first of all, that is -- if you are looking at whether I will be able to -- [management] will tell me under absorption of my overheads? Unlikely. Having said that, we are at a steady level even though our inventory in our factory is very low, what normally we would like to keep. And the point that Rakesh made on the fact that we would be cutting down BS IV inventory, it is because there is a general dilution of dealer inventory because of festive. You build up on festive, you bring it down on festive. So there is no impact of BS IV production profit in October or November. So reiterate that there will be no major under absorption, over absorption because of some percentage change in motorcycle production in Q3.

Kumar Rakesh, BNP Paribas, Research Division - Analyst [34]

My next question was over the next 3 to 6 months, especially getting into the festival -- the peak of the festival season and then getting into the BS IV inventory clearing sales for the entire industry. How do you see the competitive intensity and especially the discounting for overall industry panning out during this period of time?

Rakesh Sharma, Bajaj Auto Limited - Chief Commercial Officer & Executive Director [35]

Of course, we will have to wait and see how our competitors respond. But on our side, our approach is very clear. We are going to manage the BS IV and BS VI transition through

balancing out wholesale and retail in a sensible way. So obviously, retails this month are going to be significantly higher than wholesale. And we will manage this inventory bleed in the BS VI and bleed out the BS IV. We are not going to artificially advance BS sales so that we liquidate our BS IV stock. We are not looking at that. But we are -- we know that we are in a competitive work and that there is some customer -- custom competitor who resorts to that kind of a strategy. If it is still in the ballpark, we will ignore it. But if there is a major discontinuity, we'll have to respond to it. But at this point of time, assuming normal behavior from competition, we are going to just manage the transition through inventory management and the timing of it rather than playing around with discounts to influence the timing or share.

Kumar Rakesh, BNP Paribas, Research Division - Analyst [36]

Yes, so what I was trying to understand that going into BS IV inventory clearing, if there is any prebuying driven by heavy discounting, will you be participating in that? Or will you be okay with losing market share for that duration of time?

Rakesh Sharma, Bajaj Auto Limited - Chief Commercial Officer & Executive Director [37]

So like I said, in the normal course of things, we will stay with our plan. Our approach is that the most important thing for us is to manage this whole thing sensibly. We are keen that our dealer network, our channel is -- moves and transitions into the new era without bruises and bumps. And we are not looking at this transition as a way of scoring a few points of market share through a fire sale and that kind of a thing. We are not looking at it like that.

Operator [38]

The next question is from the line of Jay Kale from Elara Capital.

Jay Kale, Elara Securities (India) Private Limited, Research Division - Analyst [39]

So my first question was on your Pulsar volumes. If I see a post introduction of your Pulsar 125cc, there has been a drastic change in your mix of overall Pulsar. So your Pulsar 125cc start has now contributing around close to 30% and Pulsar 150 has come down to 47% of

your total Pulsar volumes. So how are you seeing the Pulsar customer over here of the 125cc? Is he a customer who was initially coming for a 150cc and now is getting a better deal for a Pulsar at 125cc? Or is he a customer who wants to upgrade from a 110cc bike eventually to a 125cc? And is -- so how are you seeing the customer profile of the Pulsar customer changing for you with the introduction of 125cc?

Rakesh Sharma, Bajaj Auto Limited - Chief Commercial Officer & Executive Director [40]

So our move to introduce the Pulsar 125 was with the idea and of course, obviously, we started working on it quite a few months ago. But obviously, it was because we were anticipating that the 125cc segment is going to get a tailwind because, without any doubt, the imposition of the mandate of the ABS has made things a little bit more difficult for the entry-level person who's entering the sport segment. He is facing some headwind. Then there are people who would [sir] not have enough power to cross over and cough up that additional INR 7,000 and then slip into the 125cc segment. So certainly, till the time the market digests this new normal, we definitely see the 150cc plus segment facing slight headwind and the 125cc segment getting some tailwind. It is with this construct that we decided to introduce -- extend the Pulsar brand into the 125cc. We have kept it true to the Pulsar gene, so except for the 25cc change, rest of the engine, the quality, the type of engine, the construct of the engine, the other aggregates like suspension, styling, graphics, et cetera, are very much true to the Pulsar gene.

Now it is very early days, but retail has just been there for about 45 days or so we have had only September to analyze. But we are finding that the sources of -- it is the most expensive 125cc, it is the most powerful 125cc in India right now. And what we are finding is that it is attracting actually a moderate bunch. There are some people who would've bought the 150cc Pulsar. But there are many more people we are finding who would have liked to buy the Unicorn 150, but they've now found the 125cc at the price of -- helpful. There are people who have upgraded from intending to buy some of the regular 125cc, including our Discover 125, Shine 125, who have found this to be a more attractive proposition in the 125cc. So I would say that I don't want to go more specific than this because this is just 1-month data, we are observing it. But the early indications are that we are gaining a lot of new customers from various quarters and losing much less on account of people -- on account of our own set of customers.

Jay Kale, Elara Securities (India) Private Limited, Research Division - Analyst [41]

Okay. Great. Then my -- one question on your -- how do you see the customer behavior currently? So 1 year back, I mean almost everyone would've expected that because of BS VI cost coming in, in April, there could be a prebuy of BS IV vehicles. Given the last 2, 3 months, how do you read the customers currently? Are they willing to postpone their

purchases and are okay to buy BS VI in essence? Has the industry got it slightly incorrect in terms of the customer behavior? Instead of prebuying, they're actually waiting, how do you read the customers in that context?

Rakesh Sharma, Bajaj Auto Limited - Chief Commercial Officer & Executive Director [42]

Well, this phenomena has not yet started playing out itself in the motorcycle industry. There have been a couple of introductions of BS VI in scooters, et cetera, but that is very, very small data. So the customer -- this whole BS IV, BS VI transition and debate has actually [not] become so real for the 2-wheeler customer now, like perhaps it is for the 4-wheeler industry. And again, you have that information as much as I have, but there are mixed signals coming from the 4-wheeler industry. We have seen people, particularly in the higher end who are saying that okay, I am going to in the end just buy a BS VI vehicle so let me hold off the purchase. But we have also recently encountered signal strongly 4-wheeler industry, which is saying that there seems to -- that the BS IV inventories which are lower-priced are moving faster than the BS VI inventory. Whenever there is a model which has both BS IV and BS VI variants, the BS IV variant is moving fast. Now so it is very difficult -- I don't think we will be able to make a broad-brush sweep -- sweeping statement regarding customer behavior. I think the customer behavior will vary from segment to segment and, in fact, from region to region. And we are thinking we just have to keep our ears close -- and eyes close to the ground and respond to that. But that's why I'm saying that because this is an ambiguous situation, our approach is not to play the market. Our approach is to ensure that this transition, which is a significant transition, we manage it well for us and for our dealer, and then we are better prepared for the battle at a more fundamental level rather than score a tactical point here or there and then only to sort of lose it within a few months.

Jay Kale, Elara Securities (India) Private Limited, Research Division - Analyst [43]

Sure. And just lastly, how ...

Operator [44]

Sorry sir, but I request you to return to the queue, please.

The next question is from the line of Ranjeet Jaiswal from Bernstein.

Ranjeet Jaiswal, Sanford C. Bernstein Limited - Senior Equity Research Associate [45]

My first question is on realization, which showed a significant improvement. So sir, can you please give us the breakup of what is the benefit of currency in this for the quarter?

Rakesh Sharma, Bajaj Auto Limited - Chief Commercial Officer & Executive Director [46]

Currency, between Q1 and Q2, I have gained about -- so my realized amount 70.6 in this quarter versus last quarter was 70. So that's about 6% to 7% gain or 8% gain because of currency and expense. We have taken in the domestic also price increases, calibrated price increases both in 2-wheelers and in 3-wheelers. We took one in July and then a very small one in September. So all that has attributed. Added to it in the domestic market, the mix between motorcycles and 3-wheelers has tilted in favor of 3-wheelers and hence you see an increase. I would hazard a guess that you would find the overall increase in ARPU of about maybe 9% is what your number would possibly speak. 6%, you can consider an increase of 5% of which less than 1% or about 0.5% is because of forex and the balance is because of price increase and mix change.

Ranjeet Jaiswal, Sanford C. Bernstein Limited - Senior Equity Research Associate [47]

Okay. And my last -- second question is on your EV. So the EV launch which recently happened, can you throw some light on the pricing of the product and which segment it would compete with?

Rakesh Sharma, Bajaj Auto Limited - Chief Commercial Officer & Executive Director [48]

Well, we would not like to get into a pricing discussion, as we have said, it was a product unveiling. We're going to have a limited launch in January in the city of Pune. And after that, we will expand that to Bangalore. We will study how the business unfolds. And therefore, we will be announcing the pricing and financing options close to the launch in Pune, sometime in January.

In terms of these segments, well, EV is going to draw people -- is going to cut across -- its appeal is going to cut across the conventional segments. I think a new segment will emerge which will be a combination of people, irrespective of their age or geographic location or background, but it would consist of people who are premium-minded, who are highly

convenience-oriented, they respond more to [activate] performance and particularly technology, who are early adopters. And this would be the composition of the new segment we are anticipating. They are environmentally conscious as well. But these could cut across in our survey as we have found in our early engagement, we have found they could have ages from 70 years to 18 years. They could be located in small towns, large towns, wherever. So I think we will find in the early adopters of EV, a completely new segment which is -- which draws from all the conventional segments.

Operator [49]

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

Kapil R. Singh, Nomura Securities Co. Ltd., Research Division - Executive Director [50]

Congrats on good set of numbers. Firstly, I wanted to check on your market share ambitions going ahead. We saw very strong improvement in the last 1.5 years. It's sort of stabilized now. So how do you think about it going ahead for next couple of years? And what are the product or pricing actions we should think about for the next phase? Will it be a steady improvement? Or should we see another step jump that we saw some time back?

Rakesh Sharma, Bajaj Auto Limited - Chief Commercial Officer & Executive Director [51]

Well, that's a very deep and broad strategic question. You're right that in recent times, the market share has got stabilized. And one of the reasons on reflection is that when the industry is declining by high double digits, there is hardly any room to maneuver. And we'll be successful in reshaping our portfolio, but that's not in terms of, let's say, the 100cc going to the 110cc. The introduction of the 125cc is an absolutely virgin segment for us. But we -- but some support from market growth is very helpful in expansion of market share. Otherwise it becomes very, very challenging in a declining environment to be striving for market share growth. So a lot depends on how post festive, the trajectory in which the industry settles down into. And if there is even a gentle positive, yes, I think based on our new product and all the other actions we are taking, we will see a consistent improvement in market share month by month in this financial year. We will stay with our current strategy. In this, there is a bolt-on issue of this transition and advancement of sale, which will be an artificial issue. And again, things will settle down. But at this point of time, we are going to stay with our current strategy and hopefully it is product and innovation-led, which is based on very tight operational management and striving for better customer care. So we will

continue on this, the 3-pronged thing and see how it goes. We don't see any reason to shift gears on it.

Kapil R. Singh, Nomura Securities Co. Ltd., Research Division - Executive Director [52]

Okay. So on the products, any details you can share? With segments, or ...

Rakesh Sharma, Bajaj Auto Limited - Chief Commercial Officer & Executive Director [53]

Yes. So there is a robust pipeline of products and brands actually for the next 18 months or so. Our problem is the sequencing. So whether it is a Husqvarna, which we are going to be putting in or whether it is hiring KTMs, which we are going to be putting in, there are -- there is action on the Dominar brand, there is action in the Pulsar brand and variants -- other variants as well. So we will be -- I think this strategy will accelerate post the BS VI because we don't want to handicap absolutely new product with the BS VI cost while it is fighting with BS IV competitors. But that's drawing to a close. So you might see a little lull between now and -- there are a couple of introductions, but you might see a lull between now and April, and you will see an acceleration in the product -- developed product introduction post April.

Kapil R. Singh, Nomura Securities Co. Ltd., Research Division - Executive Director [54]

Okay. Sir, one clarification on your financials. Could you give us what should be the full year taxes that we should expect? And also [you have not extensively] explained. So are there any onetime items here or what should be the normalized run rate?

Soumen Ray, Bajaj Auto Limited - CFO & President of Finance [55]

There is no major onetime item which is large enough to be called out. As far as the tax rate is concerned, we have opted for the 22-plus tax rate. My sense is you could take a number of anywhere between 24 and 25 to end up for the full year.

Operator [56]

The next question is from the line of Shyam Sundar Sriram from Sundaram Mutual Fund.

Shyam Sundar Sriram, Sundaram Asset Management Company Ltd. - Research Analyst [57]

On the export motorcycle front, we have seen some softening in the past couple of months. Sir, given crude continuing to be soft, what is your outlook for export motorcycles over 2 years?

Rakesh Sharma, Bajaj Auto Limited - Chief Commercial Officer & Executive Director [58]

So 2 years is a long horizon, I must say. But we have actually not -- I would not share your view that there is an immediate softening. There might be a little bit up and down which is seasonal or some country-based issue. But exports, particularly of motorcycle, is rock steady. And unless there is some major geopolitical event or something happens to the U.S. dollar which destabilizes emerging market currencies, we do not see any reason to think that export is going to vary from its recent months' performance. We should be able to continue. And we are growing ahead of the market in the markets which we are participating in. So we have, by our reckoning, garnered about -- at a global level, and this is again a very global number because this is best discussed country-wise, but if someone were to ask me I would say that, yes, we think we have garnered about 2.5 percentage points of market share. It suggests that we are growing faster than competition in all these markets put together. We will continue on that [basis].

Shyam Sundar Sriram, Sundaram Asset Management Company Ltd. - Research Analyst [59]

All right. Sir, now I was more referring from a growth perspective but this is also very helpful. Sir, on the 3-wheeler front -- on the domestic 3-wheelers, you seem to have made out some -- that is an incremental volume in Q2 compared to Q1. What has changed here? And are there any [for Egypt] signs in export 3-wheeler for major market? If you can comment on both of these.

Rakesh Sharma, Bajaj Auto Limited - Chief Commercial Officer & Executive Director [60]

So in the domestic side what has happened on the 3-wheelers is that as you are coming closer to the season, there is a little bit of a seasonality effect also. And that we have encountered in, let's say, start to experience that in September. And you know that we are at a 60% market share, we, to some extent, rise and fall with the industry. And therefore, that has benefited, that's point number one.

Within that, there is a couple of segments where we don't have such high market share. There has been a uptick in the diesel segment, which is because of the support a few state governments are giving to diesel, some popular schemes and that has been helpful for us as well. And we have garnered -- we have acquired a significant increase in market share in cargo segment. Even though cargo segment I think is 15% or 18% of the industry, but we have gained quite a few percentage points. And today, we are at 31% market share. So that combined, all that has upped the 3-wheeler performance.

In terms of Egypt. So Egypt sales is down from -- retail sales have now settled down, let's say, from the high of 8,000 to something like 3,000 in the period of January, February, March of this year before the restrictions came into play with -- and when I say restrictions it means basically regulations and licensing. It has peaked at about 8,000, 9,000 and this formalization of the industry is having its own difficulties. But living through those difficulties, the change has come down to 3,000-odd. And -- but we -- our stocking, including what was on -- what it was based at an 8,000 level. So obviously, there was a high level of stock, which had to be managed downward, that process is now complete. So that -- we expect the -- that in this quarter, maybe towards the end, Egypt will resume sales, albeit at a lower level than what it was in the past. But we have not exported anything to Egypt in the last 6 months, I think. But that will now commence, but at a lower level.

Shyam Sundar Sriram, Sundaram Asset Management Company Ltd. - Research Analyst [61]

Sir, great, sir. That is very, very, very heartening to hear. Sir, just continuing on that cargo segment, sales established it could -- do you see any shift in -- from the 3-wheeler good segment maybe to a small car commission vehicle or something of that sort because of the price increase net? Or how are you seeing that segment relating post BS VI?

Rakesh Sharma, Bajaj Auto Limited - Chief Commercial Officer & Executive Director [62]

On the contrary, we are seeing in the cargo segment and the large segment that this should be a tailwind for us because as you already know that some of the smaller 4-wheelers, which will be deployed for passenger carrying or cargo purposes, they are going to be discontinued or they are going to be very, very expensive because of the transition. And I

think this will cause one sort of the dust to settle in April, May. We should see an increase in the 3-wheeler segment, which will start serving the customers where these small 4-wheelers were selling.

Shyam Sundar Sriram, Sundaram Asset Management Company Ltd. - Research Analyst [63]

Okay. Great. Sir I thought it was just on the BS VI point difference. On the segment, are we seeing any -- are we planning to launch any innovatively engineered solutions to protect our consumer base and market share with [NT] motorcycles?

Rakesh Sharma, Bajaj Auto Limited - Chief Commercial Officer & Executive Director [64]

So, I must confess, I did not fully understand your question. I mean innovation is a very important lever which we are constantly managing. And you would've seen the 110cc, the 5 Speed, which we have launched over there and the comfort tech proposition in our Platina brand, et cetera, which we are deploying. These are all very real examples of meaningful innovation. So that is a continual exercise. That has got really nothing to do with BS VI or BS IV.

Shyam Sundar Sriram, Sundaram Asset Management Company Ltd. - Research Analyst [65]

No sir, I was meaning something like an E carburetor or something of a more innovatively engineered solutions, something of that sort.

Rakesh Sharma, Bajaj Auto Limited - Chief Commercial Officer & Executive Director [66]

All this is going to get -- I mean finalized and you will see the end results just within a few months. So I think you can then make your assessment.

Operator [67]

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 [68]

Sir, congratulations on the results. A couple of questions from my side. Firstly, in the entry-level motorcycles, the share of the newly launched products, that is the CT 110 and Platina 110 has done well. So how are you seeing the profitability in this segment versus the previous periods?

And secondly, can you share the number for spares?

Soumen Ray, Bajaj Auto Limited - CFO & President of Finance [69]

Yes, I was waiting when this spare question will come. A question which is obvious. So in Q2 of this year, our total spare revenue is INR 793 crores.

Raghunandhan N. L., Emkay Global Financial Services Ltd., Research Division - Senior Research Analyst [70]

And what would it be last year, sir?

Soumen Ray, Bajaj Auto Limited - CFO & President of Finance [71]

Same period last year, it was INR 811 crores.

Raghunandhan N. L., Emkay Global Financial Services Ltd., Research Division - Senior Research Analyst [72]

And the first question was on the mix is improving in the M1 segment, how are you seeing the profitability trends?

Soumen Ray, Bajaj Auto Limited - CFO & President of Finance [73]

So let me put it this way, our intention, as I have explained earlier also, is not to price the same product higher, but to do innovation. We are indeed bringing consumer-facing benefits for which I can charge a price which is more than the cost being incurred. So whether it is Platina 110 [A], CT 110, needless to say, all our new launches are at a better profitability compared to their peers which are existing. And that is how we will improve the overall profile of the margin of each deal. But within that getting into specifics is something which we tend to avoid. But if your question is, are these more profitable than their existing peers within the same brand, the answer is yes.

Operator [74]

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

Binay Singh, Morgan Stanley, Research Division - Executive Director [75]

Earlier, before the start of the festive season, Rajiv made this comment that he could see mother of all discount schemes coming through in the festive season. So could you comment a little bit about the sales promotion spending in this festive versus last festive?

Rakesh Sharma, Bajaj Auto Limited - Chief Commercial Officer & Executive Director [76]

Yes. You see that was what the anticipation of one of the scenarios was certainly, that given the past before the industry, given the way we had all got bruised and this -- the need to reduce stock, that was certainly one of the scenarios. But I must say that compared to previous year, this year is no different. And I -- from the information which I have, which our team has gathered from across the country, different competitors. Everyone is in the same ballpark this year and -- which is no different from last year. They may be clothed as -- in a different shape or way, we have taken the approach of being very direct and straightforward because the time was short and we wanted a singular communication to be piercing the

mindset of the customer. Other people have looked at it, tried to give a bundle of benefits. But when you compare them, you try to monetize these and compare them everyone is in the same ballpark. Similarly, some people have gone a little bit ahead on financing, like 0 down payment, some like I said not gone all the way up to 0 down payment. But yet there are nice finance schemes as well. So I would say we are in the same ballpark this year, which is also not very different from last year.

Binay Singh, Morgan Stanley, Research Division - Executive Director [77]

Okay. And these gains do you think will end when the festive season ends? Because I was trying to see like because that could also be a driver of retail sales in the season.

Rakesh Sharma, Bajaj Auto Limited - Chief Commercial Officer & Executive Director [78]

You see the customers actually start to decide much ahead of the season. Come June, July season, you know that I am going to make a purchase. And then they say that okay, let me hold on because I am not -- I'll get some additional scheme, et cetera. So they hold on and then they come. And whenever -- of course, that a little bit of religious sentiment attached to it of taking deliveries on a -- on certain auspicious day. By engineering this scheme you might knock off 1 or 2 -- I mean which continues actually for 1 or 2 days or 3, 4 days just for the mop-up because some people have just got too busy, et cetera. But I don't think that it will cause demand to suddenly rise post the season, that's very difficult. The natural cycle, which is on a sharp decline, cannot get arrested or reversed by some discounting, so it would be a waste of time.

Binay Singh, Morgan Stanley, Research Division - Executive Director [79]

Right, right. And within India, what is the finance percentage now for this quarter? And how much is Bajaj finance?

Soumen Ray, Bajaj Auto Limited - CFO & President of Finance [80]

We have seen some improvement with uptick in finance penetration, so I'm upwards of 70% in this quarter. And out of that, Bajaj is close to about 60%.

Binay Singh, Morgan Stanley, Research Division - Executive Director [81]

So 70% of the domestic 2-wheelers are financed this quarter. But that was a very sharp increase than for the last quarter.

Soumen Ray, Bajaj Auto Limited - CFO & President of Finance [82]

Yes. [There has been a significant]...

Binay Singh, Morgan Stanley, Research Division - Executive Director [83]

[There has been a significant if I have] yes, if I remember correctly, Bajaj, it was almost 47% last quarter. So from that, it has gone to 70%.

Soumen Ray, Bajaj Auto Limited - CFO & President of Finance [84]

No, last year -- last quarter, sequentially -- so Q1 FY '20, we were about 65%, which has now crossed 70%.

Binay Singh, Morgan Stanley, Research Division - Executive Director [85]

And sorry again how -- and how much is Bajaj Finance on that? I missed that.

Soumen Ray, Bajaj Auto Limited - CFO & President of Finance [86]

Bajaj Finance is more than 50% of that.

Binay Singh, Morgan Stanley, Research Division - Executive Director [87]

Okay, okay, okay. So there's a big change in financing.

Operator [88]

The next question is from the line of Nishit Jalan from Axis Capital.

Nishit Jalan, Axis Capital Limited, Research Division - Executive Director of Auto [89]

Sir, I have 2 questions. Firstly on the [domestic] export motorcycle front if I look at Pulsar exports have increased significantly this quarter vis-à-vis last quarter. And in terms of market outlook, we have seen that Africa is growing better while LATAM is a little bit slow. So just wanted to understand, have you started to export Pulsar 125 in a bigger way and you are finding demand in Africa and other markets as well?

Rakesh Sharma, Bajaj Auto Limited - Chief Commercial Officer & Executive Director [90]

No, actually we have not yet started the Pulsar 125 as you all know it from the domestic market. There is a Pulsar 125, which is a different Pulsar 125, which maybe some of you may know, there used to be a Pulsar 135 which Bajaj had. And this Pulsar 135 was a very good model. Internationally, it was accepted very well. It didn't do too well in India, did well internationally and that was changed to the 125. So we have had a Pulsar 125 in the international market, particularly in Latin America, for a very long time now. The Pulsar growth which you are seeing is driven by models like the new Pulsar 160 NS (sic) [Pulsar NS 160] which after all its stats and modifications, et cetera, has moved in. You are also -- this growth is also driven by the higher spec FI and ABS spec 200 NS, which have again now been in the market for a few months and repeat orders are coming in. So the Pulsar expansion is really based on driven by the NS or the newer Pulsar portfolio.

Nishit Jalan, Axis Capital Limited, Research Division - Executive Director of Auto [91]

Which markets would be driving that? Is it only still Latin America or you are -- we are seeing this uptick in other markets as well? Because LATAM was relatively slow for us in this quarter.

Rakesh Sharma, Bajaj Auto Limited - Chief Commercial Officer & Executive Director [92]

Yes. So Latin America is a major contributor and there is, of course, places like Bangladesh and Malaysia, which are newer markets for the Pulsar category. We are seeing an expansion in Bangladesh, Nepal, in -- a little bit in Malaysia, et cetera.

Nishit Jalan, Axis Capital Limited, Research Division - Executive Director of Auto [93]

So when you talk about mix improvement in gross margin, I think my sense is even this change in export mix also would have played a part on that, right?

Soumen Ray, Bajaj Auto Limited - CFO & President of Finance [94]

Yes, it would have.

Nishit Jalan, Axis Capital Limited, Research Division - Executive Director of Auto [95]

Sir, my second question is if I -- just want to check on the status of -- we had tied up with Triumph and Husqvarna just wanted to understand what are the timelines we are looking for launching models in the domestic market?

Rakesh Sharma, Bajaj Auto Limited - Chief Commercial Officer & Executive Director [96]

So Husqvarna, is a brand which is owned by KTM Austria. So they [collect the] rights to Husqvarna. And -- so it's not a separate company, it's part of the KTM corporate portfolio. We are going to commence production by end of this year, calendar year, for Husqvarna. And we will first start with exports. And in the first quarter of next year, we'll be launching certain Husqvarna products which are manufactured here in Chakan, Pune in the domestic market.

Nishit Jalan, Axis Capital Limited, Research Division - Executive Director of Auto [97]

And so what about Triumph...

Rakesh Sharma, Bajaj Auto Limited - Chief Commercial Officer & Executive Director [98]

The Triumph agreement is close to finalization. There is a very healthy dialogue at different levels in the company on product development, market research, et cetera. And we are just concluding the documentation. We want to -- we don't want to jump the gun and start making announcements before the partnership documents have been completely laid to bed. But I must also add that there are no fundamental differences which have to be ironed out. These are just process and procedural matters, which is dotting the i's and crossing the t's and as soon that is concluded, we'll make a statement on it.

Nishit Jalan, Axis Capital Limited, Research Division - Executive Director of Auto [99]

Okay. So just one clarity. You had talked about the price increase in July and September in the Indian market, so just wanted to get the quantum of that and was it only in the domestic market or you took some price increase in the export markets as well?

Soumen Ray, Bajaj Auto Limited - CFO & President of Finance [100]

It was primarily in domestic market. It was across multiple SKUs. It is difficult for me to now read out all the numbers.

Nishit Jalan, Axis Capital Limited, Research Division - Executive Director of Auto [101]

Sir, anything on the blended side basically?

Soumen Ray, Bajaj Auto Limited - CFO & President of Finance [102]

So I'll tell you September was primarily in the sport segment, in the S1 segment. There was a nominal increase of about 1% or 1.5%. And the earlier one was a little more broad-based.

Operator [103]

The next question is from the line of Jinesh Gandhi from Motilal Oswal Securities Limited.

Jinesh K. Gandhi, Motilal Oswal Securities Limited, Research Division - SVP of Equity Research [104]

Yes. Sir, my question pertains to other expenses. You indicated about promotion being shifted towards branding with this, I guess, on Y-o-Y basis. On Q, Q this increases are pertaining to any particular cost head? Or is it pretty broad-based?

Soumen Ray, Bajaj Auto Limited - CFO & President of Finance [105]

Typically Q2 is -- we had many more launches and the activity was higher and that is primarily. There is no one-offs.

Jinesh K. Gandhi, Motilal Oswal Securities Limited, Research Division - SVP of Equity Research [106]

Okay, okay. Understood, understood. And secondly, with respect to the domestic market while overall we see reasonably high amount of inventory in the system, do you see possibility of industry closing full year at a flattish level? Or are you still expect it to decline?

Rakesh Sharma, Bajaj Auto Limited - Chief Commercial Officer & Executive Director [107]

Well, it is anybody's guess because of this unknown factor of how the consumer's behavior will be when it comes to choice of BS IV and BS VI. It may artificially advance some say, and that may just get bolted-on to the quarter 4. But if I keep that aside, when there's nothing to suggest that the industry will finally start growing, if this whole festival trigger sustains itself then hopefully the industry will be in a 0 to minor negative. But this I'm saying with this both unknown variables of the advancement being kept aside. Now that -- there is no major advancement of the same, then that's where I think it is suggesting right now.

Operator [108]

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

Pramod Amthe, CIMB Research - Head of India Research [109]

Congrats on good set of numbers and also for launching the 2-wheelers EV in the space. First question with regard to the EVs. What is the assumption in terms of -- for you to ramp up 2-wheeler EVs, say, for example, 2 or 3 years down the line in terms of volumes? And why 2-wheeler EV launch took a precedent over the 3-wheeler EVs? Where competitors are already gaining an edge with launch and yearly payback and TCO seems to be much more viable and much more risky for your product mix or product portfolio?

Rakesh Sharma, Bajaj Auto Limited - Chief Commercial Officer & Executive Director [110]

So the -- about the demand forecasting of EVs for the next 2, 3 years and our production of -- gearing up for that, that really is something which we have not looked at. From a manufacturing point of view, given the vast engineering resources, the infrastructure and the vendor base which is there, we don't see this as a very critical factor, given the construct of the EV machine also. We don't see this as a very critical factor. So it's not like

we are putting up a new plant so we produce on demand forecasting. We can ramp up very, very rapidly. And that's very helpful because as you all know, the demand forecasting of EV is a very complex task, it's like forecasting climate change. Very, very complex task because there's multiple variables. It's a multivariant subject. And therefore, we are not attempting that.

Our attempt with the -- our reason for launching the -- for getting into EV is to, of course, secure a first-mover advantage, at least a month we established where we are the first one and early learning processes. And then also acquire the EV capability, whether it's in terms of R&D, manufacturing or customer experience and all that. So that is our objective. Our objective is at this point of time not really market share or growth in EV business. We want to acquire these capabilities and then roll with the dice. Let's see how the government responds, how the other stakeholders in terms of charging ecosystem, et cetera, respond.

We are progressively going to put EV in, as you know, I think you mentioned that 3-wheelers and even quadricycles. Your comment about the case being stronger is not entirely correct when it comes to 3-wheeler, okay, the case of TCO being stronger, because it depends on what will you compare with that. If you compare EV with CNG, then the case weakens considerably. And as we -- if you compare with diesel, then the case is obviously much stronger. But from a macro perspective, the diesel component of the 3-wheeler industry is reducing. It's a stated government policy of popularizing CNG. And which is -- as you know, we have an 80% plus market share in CNG. And as the CNG pipeline is piercing the heartland of India, we are finding that diesel owners are converting to CNG owners, and that's great. But from an EV point of view, then for EV as a category in 3-wheelers, it becomes a little bit more challenging. I have not yet come across a strongly competitive 3-wheeler. I'm not talking of these [lightheaded] or these really small rickety stuff which is being imported from China and slapped together and put out, which don't need permit and - I'm not talking of those, but proper 3-wheelers. I've not yet seen a competitive play that is worth sort of talking about.

Pramod Amthe, CIMB Research - Head of India Research [111]

And as a follow-up on the same. Since you have developed the EV powertrain for 2-wheelers, how quickly is it possible to adopt in 3-wheelers? And would there be a substantial similarity to be drawn if that becomes a much more viable option?

Rakesh Sharma, Bajaj Auto Limited - Chief Commercial Officer & Executive Director [112]

So that has already been done, and you will see that during this next 6 to 9 months, we will be commercially putting out this. I mean if you come to Pune or you come to the factory you will see a lot of our EV 3-wheelers running around here and there. We have displayed them

in exhibitions, et cetera. So that work is already done, it's just the testing and all those things are going on.

Operator [113]

Thank you. Ladies and gentlemen, due to time constraint that was the last question. I now hand the conference over to the management for closing comments.

Soumen Ray, Bajaj Auto Limited - CFO & President of Finance [114]

So thanks a lot for joining the call. I appreciate your questions. In case there are further questions which you have as a follow-up, I would be the focal point. And if I need to get Rakesh and to get out your answers, would be happy to do it. Most of you have my email id which soumenray@bajajauto.co.in. In case of further follow-up queries, please write in. And thanks a lot for joining. And thanks, Raghu from Emkay for hosting this call.

Raghunandhan N. L., Emkay Global Financial Services Ltd., Research Division - Senior Research Analyst [115]

Thank you very much.

Operator [116]

Thank you. Ladies and gentlemen, on behalf of Emkay Global Financial Services, that concludes this conference. Thank you for joining us and you may now disconnect your lines.