“Bajaj Auto Limited

Q3 FY2023 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good evening, and welcome to Q3 FY 2023 Results Conference Call of Bajaj Auto Limited. My name is Yashashri, and I will be your coordinator. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the initial remarks from management. Should you need assistance during the conference call, please signal an operator by pressing * then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Anand Newar, Head, Investor Relations from Bajaj Auto Limited. Thank you, and over to you, sir.

Anand Newar: Thanks, Yashashri. Good evening, everyone, and a very Happy New Year to each one of you on the call today. Welcome to Bajaj Auto's Q3 FY '23 Earnings Conference Call. On today's call, we have with us Mr. Rakesh Sharma, Executive Director; and Mr. Dinesh Thapar, Chief Financial Officer. We will begin our call with the opening remarks from Rakesh on the business and operational performance of the quarter and Dinesh will take you through our financial highlights. We will then open the forum for the Q&A. Over to you, sir.

Rakesh Sharma: Thank you, Anand. Good evening, ladies, and gentlemen, and a very Happy New Year to everyone. We are very conscious that there's a long weekend shaping up if you take 27th off. And so, we really appreciate you're taking the time out this evening to join the call. We did want to have this conversation close to the announcements of our results, which happened a couple of hours ago, but I hope you've been able to go through them.

So let me begin with the highlights of our performance in quarter three. This quarter, yet again, we surpassed our previous highs, recording an all-time high EBITDA, as you know, for the second time in a row through margin expansion of almost 400 basis points. Now this performance is particularly delightful for us because it has been delivered against the backdrop of very difficult trading conditions in overseas markets, which, as you know, accounts for almost 50% of our sales.

So indeed, this resilience is the result of a strong and diversified product market portfolio with leading competitive positions in key segments as well as robust operational management. Exports continues to face strong headwinds due to the difficult macroeconomic environment in most emerging markets. Industry retails in South Asia, Africa and LatAm, were down by almost 30% in quarter three compared to the previous year quarter three. ASEAN markets were an exception, and they bucked the trend, recording a double-digit growth, which is largely the release of pent-up demand from COVID because they've taken longer time to deal with the COVID situation.

Devaluation driven price increases and erosion of purchasing power due to across-the-board inflation in emerging markets has impaired demand, and that's why it's at the minus 30% level. While for the last three months or so, the retails have now bottomed down and holding steady at these lower levels, availability of US dollar for trading and a cautionary stand taken by most central banks to convert foreign exchange continues to make operations quite difficult. In this scenario, our prime objective has been to hold on to our competitive positions.

In fact, expanding on our competitive positions by not relenting on new product introductions, etcetera, and also to minimize the exposure of our channel partner to currency volatility. So we continue to keep this sort of business trends going. Our market share, therefore, in key territories remains strong and steady, and our stocks on the ground are well matched to the lower level of retail. Indeed, in some markets, we are facing a stock-out situation because forex has not been readily available to allow for shipments to take the stocks up to the levels which are now needed to service the demand even though they are at lower levels.

Looking forward in export, while we see the retails improving as customers digest new prices, we are sanguine about the availability of forex, particularly in South Asia and Africa. Our largest market, Nigeria, will continue to be depressed and volatile till the elections get over in end Feb and a peaceful transition to the new government takes place, and also the effect of their recent demonetization settles. Therefore, at an overall level, we estimate that it will take perhaps till May or June for normalcy to start returning, first in Latin America, then followed by Africa.

And thereafter, we can start to rebuild the stocks and address high demands. But we hope we will then see a release of some pent-up demand, which is getting created as we talk, which will get released once the foreign exchange starts to flow. On the positive side, ASEAN industry continues to do well, and we continue to improve our market share there, led by Philippines. In Philippines, I must just tell you that we are now market leaders, and our products are commanding a premium over Japanese competition as well.

In December, we launched the Dominar brand in Brazil to an outstanding reception. I invite you to check out the comments on Bajaj result Instagram handle, as you will witness first-hand, the excitement for Bajaj and Dominar out there in Brazil. We have launched only in the Sao Paulo region through top class exclusive store and are now encouraged by the tremendous response both from the trade and the customers, we're now accelerating our distribution footprint and upping shipments there.

But the idea will be to go slow and steady, build an outstanding network and a brand, which gives a very good retail experience and ensure that supply chain is predictable. Further, on the positive side, the rupee realization for the quarter was about INR 82 per dollar, which is a 3% improvement sequentially and 9% improvement year-on-year, thereby providing more juice to our top line as well as our bottom line.

Coming to the domestic motorcycles business, the industry recorded a 14% growth in retail terms, though December itself was negative, but October was hugely positive. Our estimate is that at an underlying level, sanitizing for base effects from the previous year, the industry is probably growing at about a 3% and an optimistic level, 5%, and should remain on this trajectory here onwards. Really, the turnaround in the fate of the industry happened during the festive.

As you will recall, before the festive, the industry was in negative territory. Festive was good. Post festive, slight negative, but that's because December was too close to the festive, and now we're getting a sense that it's in low single-digits. But this growth is largely driven by the top, which is a 125cc plus segment. It has grown by almost 28% as an industry in Q3 in retail terms, taking its segment share up by 5 percentage points now to 50%. So, the market is not really evenly divided between below 125cc and above 125cc. And it's quite a dichotomy that both the half are behaving quite differently.

The entry level 100cc segment continues to support and rural demand continues to remain soft. Against this backdrop, we have maintained for quite a few quarters now, our firm focus on profitable growth, driving market share up by selectively focusing on key segments and enriching our mix in each sub-segment at the same time. There has been a new product launch in each of the three months. In October, we launched the Carbon Fibre Edition of the Pulsar 125, adding a sportier appeal to the product. It has been very well received as 85% of our 125cc sales now come from the Carbon Fibre Edition, which has improved volumes, bumped up the ASPs and obviously improved margins.

In November, we launched the new Pulsar 150, the most agile and stylistic commuter in the 150cc segment. Combined with its bigger sibling, the Dual Channel Pulsar N160 ABS, the portfolio is growing rapidly, the 150, 160 portfolio, the heart of the sporty commuter segment, it's growing rapidly. We are up 28% in December, and this has allowed us to move to a 40% level of market share in this segment. The new Pulsar 150 launched in November itself accounts for 25% of the portfolio already. And the N160, the Dual Channel Pulsar N160, which we launched somewhere I think in July has now brought in almost 10 percentage points of market share.

And may I remind you that this is just one SKU, which is just in black and done outstandingly well. These statistics signal widespread acceptance of the new platform. These are obviously concerned because Pulsar is our flagship brand. And after almost 10 years, we were rejigging the platform and it's absolutely new one, and obviously, we were concerned about its acceptance, which has gone off extremely well. Our early research suggests the stylistic and nimble Pulsars are also attracting newer and more beautiful customers.

One of the issues which we had started to get serious about in the last couple of years, we are finding that the demographic in Pulsar sort of moved up in age, and we wanted to get back to the youthful customers, which both these the N160 and the Pulsar 150 are delivering, which is, therefore, expanding our Pulsar franchise. We will be fully leveraging these three successful launches in the next few months through an above the line and below the line high-intensity campaign. And finally, in December, we launched the Platina 110cc with the first-in-segment ABS feature, an added safety feature, which we believe will delight the customers in the Executive 100cc segment.

The ABS braking in Platina provides precise braking, shorter braking distance as well as better control and stability. It is early days, but our report suggests that the *'ABS on toh fisalana gone'* proposition is being very well received. We hope to mount a stiff challenge to the existing players by creating persuasion to the very topical and important attribute of safety. Overall, we have gained about 2% market share in the 125cc plus segment at a retail level sequential basis. We have increased our ASP by almost 17% and positively impacted EBITDA. The 125cc plus segment now accounts for 66% of our sales.

And with our portfolio of 20 models between the 125cc and the 400cc, 20 models compared to, let's say, 13 or 14 of the next competitors, we straddle the top half of the motorcycle industry with a Pulsar for every maniac. Now as this segment continues to drive growth for the industry, we believe we are very well positioned to grow faster than competition. In addition to that, the Platina 110 ABS, which is growing week-on-week will hopefully add new volumes to the 125cc plus volumes which we're getting.

Domestic 3-wheelers, it has delivered a spectacular performance, notching up a market share of 76% in Q3. The 3-wheeler industry has recovered to 75% of pre-COVID levels, while we are now at almost pre-COVID levels. So, our performance is driven by the success of our products in the expanding CNG segment. With 80 CNG pumps being added every month, almost 45% of our country is covered by a CNG network and almost 65% of today's 3-wheeler industry is now driven by CNG. Our market share in CNG is an overwhelming 86% and 72% of our portfolio is CNG, which is very good for our ASPs. They are 15% higher than petrol and also even better for our margins, which reflects the pricing power enjoyed by our products, which has made a great position as the most reliable CNG products in the Indian market.

Our 3-wheelers, electric 3-wheelers are in field testing, round two of field testing. If you recall, I mentioned to you all, that after round one of field testing, while we discovered that the customers -- the commercial drivers were needing a few more things, even back we have adjusted it, and now we have confirmation that we are delivering best-in-class range. Basically, they were dissatisfied with the range, the new 3-wheelers were delivering, and we said that we had to go back, make the range delivery longer and more certain. This is a key requirement. We expect to launch in selective markets by end of March. Our objective is that we will be taking it slow and steady. We think we've now got the product. Those changes will be made during February and March, and we should start dispatching in end of March.

On Chetak, we crossed the 10,000 mark in the quarter. With clarity on supply chain, we have launched an expansion drive into new cities. And encouraged by the rate of adoption of EVs in the scooter segment. We have tried to set up an independent network of Chetak stores. Of course, while Chetak was earlier being sold through our Probiking stores along with KTM and Husky brands, we have decided that Chetak should now deliver an exclusive retail experience to customers through stand-alone Chetak stores.

Of course, we have the option of using the Probiking stores, using our 800-odd stores in motorcycles, but we believe that customers will be looking for a differentiated retail experience, differentiated ownership experience. So, we have taken the call to now set up these Chetak exclusive retail stores as well as service stores.

We consider our EV initiative as I've been saying to you again to a marathon. So, we need to be ready for the long run. And also, for different scenarios of exacting quality standards, as you know that the government is mandating a new quality standard from 1st of April, and also be prepared for possibly a lower subsidy scenario in the next two, three, four years.

With this framework, we remain focused on our triple objectives. The first one, with strong R&D and supply chain progress on that, I can confirm that supply chain constraints have been totally removed. We have options now. We have the confidence of sustained higher level of supply chain performance. R&D has reconfigured products, brought down costs and are in much better shape to build newer products.

Our second objective will be to expand the portfolio to adequately cover emerging segments. I mean these are now large enough for people to start to have different preferences and those different preferences to actually become sub-segments. So financial year '24, we'll see a slew of launches, which will address different demographics, lower pricing and personal as well as delivery use cases.

Third objective was to build Chetak to be a premium and preferred choice in top 100 cities. Chetak already enjoys a very differentiated and a premium image. Our new communication just launched based on the likability of Chetak, which we have heard from customer feedback, and the communication campaign is now centred around the theme of handle without care. We believe we will deepen this premium position by giving a superior retail experience in our exclusive Chetak stores and dedicated service centres.

As we speak, we have from previous, I think quarter two of being present in about 37-38 cities, we're already in 50 cities, we should be in 85 by end of March and 100 by April. In this quarter, we will also commence supplies of Bajaj designed and manufactured products to YULU, who is our strategic partner in the micro mobility space. So you will see that in the space of the next 12 month or so, we will have a portfolio which will span from the low speed, low rate, low range delivery and personal mobility products to the top of the line, personal mobility top-priced personal mobility scooter and other products in the middle, being sold to about 100-150 stores across the country.

Finally, a word -- I must put in a word about our spares business, We don't talk about it too much. But our spares business has reported its highest-ever revenue of over INR 1,100 crores this quarter. This is driven through our conscious drive to improve customer interactions, processes interface to implementation of first in the industry initiatives, such as TPM and NPS, resulting into improved fill rates, the introduction of annual maintenance contracts, extended warranties, etcetera. We will be deepening our engagement with the retail side of the business, and we hope to continue this trajectory of growth in the highly profitable spares business area.

With this now, I would like to hand over the floor to Dinesh for his commentary.

Dinesh Thapar: Thank you, Rakesh, and good evening, everyone. Given that this is the first time that we're speaking in the year, let me wish all of you a very Happy New Year. And thanks once again for joining us you know this late in the evening. We just wanted to get the call done as soon as our results were announced to get a sense of what's gone behind them.

Now let me start as is typical by giving you a sense of the operating context, all this always helps set a frame of reference against which our financial results were delivered. The quarter saw continued weaknesses in overseas markets, as you just heard it from Rakesh. Macroeconomic challenges, inflation, dollar unavailability and local currency devaluation across markets have continued to subdue industry volumes across overseas geographies, and that's really led to a decline of anywhere between 25% to 35% in market volumes relative to last year.

In some of the geographies and countries, particularly in South Asia and Africa, this drop has been even more pronounced. And it's only in the recent quarter that we're starting to see some pressures build up in Latin America as well. Now on the domestic front, festive period sales have been pretty steady, and the 125cc plus segment has led the broader market as indeed our own sales. The market seems to have slowed down post the festive period. It is quite normal for that to happen each year, but this year, we've seen a little bit of the market come off in the period following festive.

As for commodities, the broader purchase basket, excluding specific EV comments, I'm keeping EV components aside, but across the broader purchase basket, we've seen them soften. And this is in line with what I had called out in the preceding quarter, and that's clearly provided some respite to our bottom line. And finally, the semiconductor supply situation has now stabilized relatively speaking, fewer conversations on it, although it still remains very tight across players. And we've continued with our very definitive actions on securing our supplies and have added even further alternate sources to navigate the situation. So, we have many more suppliers today than we did six months back.

Overall, our financial performance this quarter has yet again reflected a well-diversified business. We have a strong position across domestic and exports market. And this time around, it's again domestic, which has led the way, and that has enabled the resilience of our performance. The drive on exports from the challenges in overseas markets was well alleviated by relative buoyancy in our domestic performance.

Our revenue from operations was up 3% year-on-year at INR 9,315 crores with robust double-digit revenue growth across both domestic 2-wheelers and 3-wheelers. This revenue performance is despite a 17% decline in volumes, which you are very familiar with because we report our numbers each month. And that's really led out to weaker export volumes that you'll be aware of. The overall improvement in revenue was primarily led by three factors, and I'm now talking year-on-year for a bit.

Better foreign exchange realization, our dollar realization, rupee to dollar realization for this quarter was at 81.7 as against 75.1 same time last year and 79.8 for the last quarter, so that helped. Price increases, now we're talking year-on-year, recognize that for the first half of this year, the early part of the year, we had commodity inflation, so I'm now talking year-on-year numbers. Price increases were about 5% in the last 12 months. However, for the last quarter, so when you look at between quarter two and quarter three, we've not really taken any price increases. So that's been flattish quarter-on-quarter.

And thirdly, richer mix, which you would get from our commentary in terms of what's leading the growth through a higher share of domestic 3-wheelers and the sports segment and a lower mix of domestic and export entry-level bikes. Further, you just heard Rakesh and I'd like to reiterate that it's not always that we report an all-time high on spares, but that has been notable and contributed to both top line and bottom-line performance.

Now speaking of our profits, we surpassed our peak. You'll recall that we had registered a record high the last quarter, which was Q2 FY '23. And we surpassed this time around and made a new record with our highest-ever EBITDA of INR 1,777 crores, with an underlying margin expansion of 390 basis points year-on-year and 190 basis points over the last quarter.

Again, to explain the strong year-on-year improvement, this was primarily driven by improved dollar realization and judicious pricing to cover costs. That's a Y-on-Y basis. However, when you look at from a quarter-on-quarter perspective, and now this is quarter two to quarter three, the improvement has primarily come from softer material costs as we had indicated in the previous quarter. And, of course, that dollar realization has continued to aid the margin story.

Notably, this record EBITDA performance comes at a time when both our export and domestic volumes are way lower from their peaks. And therefore, the way I see it, it offers the prospect of significant headroom for growth as volume levels trend back towards their respective highs.

Let me spend a minute in talking about commodity costs considering over the last couple of quarters, it has softened and therefore, has been a contributor to the overall margin recovery. In this last quarter, which is essentially Q3 FY '23, we have seen softer costs across the broader commodity basket, whether it's steel, aluminium, noble metals, all of them have come off. The exceptions have been rubber and plastics, which have shown marginal inflation. Conversion costs have continued to remain rather tight as you would imagine, given the impact arising from utilities and energy cost.

Now as we look ahead, this is more 4Q at the next quarter, we're starting to see some uptick on aluminium, nickel, and copper in particular. But on balance as things currently stand, I expect the upcoming quarter to be, by and large, flattish, or possibly a near marginal uptick compared to this previous quarter, unless, of course, there are events which alter this course. As is typical, I want to make a quick comment on cash given how integral it is measuring the health of our business. We continue to maintain a very strong track record of cash generation. Our surplus cash stood at near about INR 15,000 crores, a very healthy level, after paying out the INR 3,100 crores towards buyback and its tax, which we've completed in the last quarter.

I'm not going to go into the details of the buyback. We've put out enough communication on it and you're well aware. But the point I'd like to leave with you is that we're still sitting on a very healthy balance sheet that offers us enough muscle and flexibility to invest sufficiently in capabilities and growth opportunities.

Let me end by saying that as we look ahead, it continues to remain our priority to step up our revenue momentum and drive our market share. In the domestic motorcycle business, we will look to engage with all customer segments through sharp execution and activation of the Platina 110 ABS, you heard Rakesh talk about this at length for the entry-level commuters, and with the full might of the Pulsar portfolio to drive the fast-growing 125cc plus segment.

On domestic 3-wheelers, we're looking to sustain our strong market leadership position, recognize we're at an all-time high in this quarter on market share. And we're looking to drive for fuller recovery towards the pre-COVID levels. As for exports, given the outlook for some of the overseas markets, it does appear that it could remain soft and challenging in the very near term.

And it's against this context, what we're looking to do is to take a few actions to salvage volumes wherever we can. And while volumes might still be a little lower than the peak that you might have seen in the past, what we will certainly look to do is to secure unflinchingly our competitive position, which have held steady so far through this challenging situation.

And alongside we will stay the course on the agenda to build up our EV business with Chetak and look at the potential launch of the EV 3-wheelers in a couple of months. And in doing all of this, of course, let me add, we will continue to dynamically manage this business for a very healthy profit delivery.

With this, let me hand the session back to Anand, and we can then open it up for Q&A. Anand, over to you.

Anand Newar: Thank you, Dinesh. Yashashri, with this, we can open the forum for the Q&A.

Moderator: Thank you very much. We will now begin the question-and-answer-session. Anyone who wishes to ask a question, may press star and one on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue is assembled. We've our first question from the line of Kapil Singh from Nomura. Please go ahead.

Kapil Singh: Yes. Hi, Good Evening, Sir. I just wanted to understand on the gross margins. We have seen almost 300 bps improvement. How much of that has come from commodities? And also, if I heard you correctly, you mentioned that as the volumes grow through the next year, you would expect to build on margins from here on? Is that the right way to think about it?

Dinesh Thapar: So, Kapil, you're right. I think quarter-on-quarter, I did make a mention that the biggest driver of margin improvement has been the lower raw material costs, and because we've seen costs coming off across the breadth of both the metals and the energy portfolio with the exception of plastics and rubber as I have mentioned. Let me say that almost 70% of the margin improvement that you're seeing quarter-on-quarter has come from softening commodity costs.

Kapil Singh: Going ahead, as volumes go up, you would say that this forms the base and we should see a further improvement because there could be some adverse impact from lower entry segment mix also? So that's why this question is there.

Dinesh Thapar: So Kapil, let me start by saying that at least a big driver of commodity costs, which has what contributed to the margin accretion in quarter three over two, the outlook for that, when I see quarter four versus quarter three is flattish to marginal inflation because, clearly, in some parts of the commodity basket, whether it's aluminium, it's nickel, it's copper, we are starting to see an uptick in those cycles.

And so therefore, the big contributor of commodity costs quarter four over quarter three, I do not expect to be there to the measure that we've just seen. Mix could take a bit of a hit if we are executing some of the plans that we have, it's a function of where exports also play out, but equally, there will be opportunities on operating leverage as well. So, it's a bit hard to forecast where that will come out at the moment. But our intention very clearly will be to try and hold margin at these levels. Just recognize that a large chunk of the commodity cost piece is reflected in the Q3 numbers.

Kapil Singh: That's extremely helpful. And also, if you could talk about pricing changes in Q4 so far in the domestic and export markets? Have you done anything there?

Dinesh Thapar: There's really been no pricing between quarter three and as of now, very marginal uptick that we had in domestic, which was offset by some actions that we took to drive competitiveness on the export markets. So, on balance, absolutely flattish for quarter three and up to now.

Kapil Singh: Okay.

Moderator: I request you to come back in the queue, sir.

Kapil Singh: Okay. Sure.

Moderator: Thankyou. We have our next question from the line of Binay Singh from Morgan Stanley. Please go ahead.

Binay Singh: Hi Team, Thank you for the opportunity. Congratulations for very strong numbers in a challenging quarter. Two questions. Firstly, good to see Bajaj-KTM partnership, I think almost 1 million units. How do you see the Bajaj-Triumph partnership playing out? Do you think the opportunity side of that built at what you do on the KTM side, and any update on that?

Secondly, on the Chetak having exclusive stores, could you share a little bit more about that? Because it seems like will these stores be viable, because you have Bajaj stores and KTM Probiking, then Chetak stores and then there are also reports that Triumph will also have its own dealership network. So, will all they be on a stand-alone basis viable? So, if you could talk a little bit about how you think about that? Thankyou.

Rakesh Sharma: Yes. Sure. So, the Bajaj-Triumph partnership, we are hoping to replicate the success of the Bajaj-KTM partnership. Frankly speaking, at a global level from the inputs which we have received from Triumph and, of course, what we see as being the potential in India, when we put these two things together, we believe that the scale of the opportunity is bigger than the scale of the opportunity which we witnessed in the Bajaj-KTM partnership. So, it's just that the segments we are covering are much larger in -- through this partnership.

So, the products are now developed. They are under field testing, both in the UK, a few other countries and in India. And in due course of time, I cannot precisely tell you while we know well precisely, we are launching it. But I cannot reveal the date as of now, but we will shortly be announcing our plans in the market very soon. They are now very, very firm. We have brought into the countdown mode, and we are sort of working to on an operation -- front-end operation basis also.

Next, was a decision about the Chetak exclusive stores. we have to sort of think through this a little bit keeping in mind the adoption rate of the EV, it's a bit forward-looking, because we must agree that the rate of adoption of EV in the last six months or so has been very good. I mean, today, -- forget the low-speed bikes, but if I just take the high-speed scooter, they are already in December clocking 20% of the scooter market.

And in some cities, it is more. Now that gives you a very, very decent volume on which to build a network. And we have got an aggressive market share assumption over there, not immediately, but over a period of time. The idea is that parking a scooter in one corner of the largely ICE offering in a motorcycle store is a very suboptimal solution. So, we said now that the business viability is seeming sort of attainable. We should -- and we are having no problems getting requests. In fact, a lot of our network is very, very happy to put these standalone stores.

So, we feel that we should take this opportunity to not just put the standalone stores, but the manner of the standalone stores, which should be more digitally enabled, which will give a much better customer experience and particularly on the service side, where they should be much better equipped to allay service anxieties. And it is correct that even in Triumph, we will attempt to do this. This will put us in a very good stead. As the market unfolds over the next two, three, four years, this will put us in a very good stead to manage the customers, to manage the customer experience well.

Binay Singh: Thanks Team. Best wishes for bright future. Thanks for that.

Moderator: Thank you. We have our next question from the line of Pramod Kumar from UBS. Please go ahead.

Pramod Kumar: Thank a lot for the opportunity and Congratulations on the excellent results. My questions are related to market share, first on the EV side and then on the ICE side here. And on the EV side to begin with, what we've seen in the last few months is the massive churn in the Tier 2 categories, right? And what we're seeing is some of the Tier 1 brands are racing away with market share, be it Ola or a Ather or a TVS, right?

But in that context, Bajaj kind of stands out with a pretty flattish market share in the last few months and not being able to kind of capitalize on this opportunity where customers are looking beyond the Tier 2 brands as they get challenged on either battery quality or subsidies getting challenged or whatever reason, right? So, what explains this quite what you say, not so obviously ramp-up, given the fact that you got everything to gain and nothing to lose from the EV transition.

So, Rakesh, if you can help us understand what is holding us back on the EV side? Because for context, Ather has market share, which is like 13%, as we speak, with a reasonably high price point and a very limited reach?

Rakesh Sharma: Yes. So, Pramod, first of all, I disagree that market share is the metric to evaluate an emerging business. We have said that we don't have a volumetric ambition at this point of time. We are first driven by building capability. This is going to be a marathon like I said. So, I mean we have got 800 stores. I can park a Chetak in each one of the stores, drop the price, it will not even affect my deep pockets compared to other competitors, even though we don't have private equity dollars to burn, we can drop the price and capture whichever market share we want.

But is this the right way or are we building the capability? What are we building? We are building the capability for being able to launch a portfolio of products. We are building the capability to bring the cost down to prepare for a scenario where subsidy is less. Today, you know that there is an INR 45,000 subsidy just on FAME, there is PLI, there is GST. What -- this in one way is artificial support to the industry.

What happens if the subsidy is half, what will we do at that time, what will we say to our vendors, what will we say to our dealers? We want to make our business fool proof from subsidies. I think there is a little bit of déjàvu here. I'm seeing a parallel, if you rewind 10 years back when we were launching the export offensive in Bajaj, at that point of time, the export incentives were 15%. And we said we are building a business dream, and there was already noise in the system, the government was saying that we want to reduce the export incentive.

We have started to take our prices up in export markets even before the incentives were withdrawn. And we started to look at product configuration preparing for a scenario. and of course, foreign exchange devaluation helped us. But the point everyone forgets is that 15% or in some markets was 17%, incentives got reduced to 2%, but still the export business, even if I net off the foreign exchange gains, the export business has maintained its EBITDA percentage and it's helped.

A similar situation is bound to unfold over two-year to three-year period. The way to mitigate that is not to act at that point of time when it occurs, but to start preparing for it now. And that is the work which R&D and all have been doing. And we feel that we are in a very good position now to start to expand our portfolio. There was no reason for us to go helter-skelter and just grab some market share. In fact, the investment in the stores, there is a far better investment in setting up these stores, both in terms of management time, effort, dealer time, dealer investment, our own investment, etcetera.

So we have dropped it, you will see in FY '24, the outcome of all that preparatory work, which has been going on for the last 12 months. The expansion of the R&D manpower, the infrastructure, the discussions with vendors, supply chain, etcetera, which on a sustainable basis will allow us to expand the portfolio. Therefore, I'm not bothered about this market share bit. I think the idea going forward would be the thing it's a marathon, we don't want to be sprinting right ahead and exhaust ourselves before the industry really shapes up.

We don't want to be a straggler, so that when the marathon is reaching an equilibrium, we have a lot of catching up to do. We are happy to stay somewhere in the front, middle, make sure we build our capability and spring into action at the right point of time, which is not very far off by the way, which you will start to see that happen next year, next financial year, I mean.

Pramod Kumar: Thanks a lot, Rakesh. Congrats once again for the response. The second question, Rakesh, is on the export side. It's actually good to hear that you -- both you and TVS hinting that export retails have kind of started to bottom out and inventory corrections have been taken place at the industry level. So, by when can one expect exports trajectory to start improving in a reasonable way, not exactly kind of been flat for a timing, but when do you see meaningful pickup in export wholesales the way given your extensive experience on the international markets?

Rakesh Sharma: I think if you go take May or June, that time and then I think the pendulum will really swing because we have been through this cycle before. And that is why the learning inside the team is that forget about the numbers, just go, put in the new products, keep continuing with the channel work, etcetera.

So, when the pendulum swings, we'll be in a very, very good position to capitalize on the resurgence. see, the demand side, though it has got severely impaired, but over a period of time, people digest new prices, and they start to move on because at the end of the day, the key drivers of the demand are intact.

The demographic is young in Africa. Road network is increasing. Urbanization is increasing. The public transport network is very poor. All those drivers which point to doubling of the penetration in the next five to seven years are very much present. We have got a great market position. So, after this interruption, hopefully, people will digest the new prices. And like you yourself mentioned, that phenomenon have already -- we have already started to witness it, that's bottoming out is a stride climbing up.

Like I said, we are facing stock-outs in a few countries. However, the availability of dollars is still a concern. The central banks being very cautious in many countries and conserving foreign exchange is still a concern. These things will take time, I don't have any way of saying that when the Fed goes and does something and which again destabilizes the market, who is to know. Then there is this special event in Nigeria, which is the elections, etcetera, which I already mentioned, which is a very large market for us, so that's not falling it out. Hopefully, that will settle in by March end also.

And if the dollar position, as a lot of the banks are saying that we will now see a sort of reversal when it comes to the strength of dollar. If the dollar position starts to ease off a bit, we will see certainly demand coming back. But I'm sort of taking a view that probably be May, June.

Pramod Kumar: And Rakesh just a follow-up on the Nigeria election. Is there going to be any change in the government stance given this political alliance comes into form -- comes into the government? Is there anything which can materially make a difference to the Okada market in Nigeria based on the election outcome?

Rakesh Sharma: No, I don't think so. I think the Okada is a very strong vote bank, and that is not going to make a material dip. It is just the peaceful transition of power, which is very important. And right now, there is always -- people can't get out on the street because there is a lot of civil unrest. So there's no traffic, and of course, there is a demonetization, all that is swirling around.

Pramod Kumar: Thanks a lot, and best of luck.

Moderator: Thank you. We have our next question from the line of Mumuksh Mandlesha from Emkay Global. Please go ahead.

Mumuksh Mandlesha: Thank you so much for the opportunity, sir. Sir, if possible, can you share the Chetak EV subsidiary financials for the quarter? And sir, from when will you get the PLI scheme benefit, sir? And has the accounting started for this incentive, sir?

Dinesh Thapar: Okay. So let me take the first question. Chetak financials will be available to you for the next financial year, because for this year we have clubbed the figures. We've now migrated a fair amount of volume in this last quarter from Bajaj Auto, which is where we are producing it to Chetak Technology Ltd. So, there is some work that we are doing on that front. The materiality of the results will start to get reflected from the next quarter onwards, when the results will be reflected in the results that we put out at the end of the financial year, which is when all subsidiaries need to be reported.

To your question on PLI, PLI, the claims will be made at the end of the financial year. Because, as you know, the PLI incentive of 13% is contingent upon the OEM being able to deliver a threshold investment. That investment for us is INR 150 crores this year. That determination of the investments will happen on 31st of March, post which the claims will be raised. So, the accounting for the PLI will happen in the next quarter when we have finality on the investment numbers.

Mumuksh Mandlesha: Right, sir. Thank you for this. Sir, export revenues for Q3, sir?

Dinesh Thapar: Export revenues for Q3 in the range of $415 million.

Mumuksh Mandlesha: Thank you so much for the opportunity, sir.

Moderator: Thank you. We have our next question from the line of Anand Venugopal from BMSPL. Please go ahead.

Anand Venugopal: Yes. Thanks for the opportunity. So, my question is there is a lot of premiumization, like basically, there's a lot of pessimism in 3-wheeler industry in India, and we realize it's an essential part of transport system. So, do you think the market is underestimating the power of next upcycle in 3-wheeler industry? Can we see, basically, higher volumes in the next upcycle versus the previous upcycle?

Rakesh Sharma: Yes, I think the 3-wheeler industry is set to grow, it is recovering pretty smartly. And it's not reached 100% like I said, only 76% of pre-COVID level. But we are seeing big finance penetration, including offering more, not just from Bajaj Auto Finance, but we are seeing that retail financiers are coming back and their willingness and the kind of schemes which they are putting out for the purchase of new 3-wheelers is also indicative. We are seeing public sector banks coming in and giving schemes. So, these are also good signs.

But like I mentioned in my opening remarks, the even better thing is the qualitative improvement in the 3-wheeler business, which is now moving from diesel to CNG. The CNG product is better from an operating expense point of view for the driver, which, again, is very helpful at the retail finance level. And it is better for the OEs like us, where our margins are far superior to the diesel products, and of course, it's a cleaner fuel. So yes, the 3-wheeler business is pointing in a very good direction now.

Anand Venugopal: All good, thanks.

Moderator: Thank you. I now hand the conference over to Mr. Anand Newar, Head of Investor Relations, for closing remarks. Over to you, sir.

Anand Newar: Thank you, Yashashri. Thank you, everyone, for joining the call. Have a great weekend. Thank you.

Moderator: On behalf of Bajaj Auto Limited, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.

This transcript has been edited for readability and does not purport to be a verbatim record of the proceedings.