"Bajaj Auto Limited
Q2 FY2024 Results Conference Call"

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Moderator: Ladies and gentlemen, good evening and welcome to Q2 FY2024 Results Conference Call of Bajaj Auto Limited. My name is Rayo, 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 the operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anand Newar, Head of Investor Relations from Bajaj Auto Limited. Thank you and over to you Sir!

Anand Newar: Thanks Rayo. Good evening, everyone and welcome to Bajaj Auto's Q2 FY2024 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 opening remarks from Rakesh on the business and operational performance for the quarter and Dinesh will take you through the financial highlights. We will then open the forum for Q&A. Over to you Sir!

Rakesh Sharma: Thank you, Anand. Good evening, ladies, and gentlemen and welcome to our earnings call for Q2. We deeply appreciate your presence here this evening. Let me begin with an overview of our performance in Q2. Yet again we have delivered a record financial performance with an all-time high Revenue, EBITDA, and PAT, breaking our previous record that was set just last quarter. This performance is a great reminder of Bajaj Auto's robust business model that reflects the resilience and vitality of a well-diversified business. Dinesh will take you through the financial performance. So let me focus on the business unit performance.

Starting with exports business unit. The macroeconomic environment combined with the new geopolitical issues remain uncertain, however, the world, and in particular the financial systems seem to have adapted to this as the new normal which is leading to some improvement in forex availabilities for trade. However, currency led inflation has continued to dampen the pace of recovery after the sharp fall in H1 of last year. Overall, our exports are still at about 66% or 2/3 of the peak, which we had recorded in the financial year 2022 but sequentially, there is an 8% to 10% quarter on quarter improvement in both retail and our shipments and this has occurred across all regions. Africa is a double-digit improvement powered by Nigeria on quarter-on-quarter basis. Asia, MENA which is Middle East and North Africa, and LATAM are single digit improvements. We expect the recovery to continue at this overall pace. The return to peak levels of performance will be a slow and steady process rather than a quick one.

Coming to domestic motorcycle business unit, the industry recorded a growth of 5% to 6% year on year in retails for the months of July and August followed by a 20% growth in September. Therefore, delivering a growth of 10% for Q2 on a retail basis. In this, the 125cc+ segment continued to grow faster than the 100cc segment. In Q2 the industry rate for the 125cc+ segment shifted to 51%. Our retails are up 22% in the quarter on the back of the 125cc+ performance which grew to 36%, significantly outpacing the rest of the industry. Our market share in the 125cc+ segment is now 30% and the segment accounts for 65% of Bajaj Autos' volumes. In billing terms, you would have seen a decline, but I would like to remind you here of the skewed base of Q2 last year where channel inventory was being refilled post resolution of the semiconductor supply issue and therefore you would have seen a very sharp growth performance in Q1, which is also to be ignored because last year Q1 was very small for Bajaj Auto.

The festive period just based on the last three days of retail has got off to a promising start. Based on this and also the kind of consumer sentiment we saw during Ganesh Chaturthi & Onam in certain parts of the country we expect the industry to grow at about 12% to 15% over a like to like period last year. You know the festive period is 33 days and sort of shifts by 15 calendar days every year so when we compare the like to like 33 days of last year with this, we are hoping that it will be a double-digit growth. Bajaj Auto should outpace this performance comfortably again on the back of a superior performance on the 125cc+ segment. Our strategy continues to drive profitable growth in the 125cc+ segment based on product differentiation and sharp positioning. Towards this, the upgrades of the Pulsar 160 and 200 NS and the new Pulsar N160 have all combined to increase our market share. The recently launched Pulsar N150 is positioned for the modern sporty commuter segment and has been very well received. Pulsar has deeply strengthened its leadership in the 150cc to 250cc segment with a commanding market share now of almost 40%. Almost six new launches and upgrades are expected in the next six months, which will further consolidate our position in the 125 cc plus segment and drive market shares to a new high.

Commercial vehicles, the hero business for Bajaj Auto this quarter is really the three-wheeler business. It had a record-breaking quarter with quarterly volumes touching a new high of 132,000 units and sales in September itself crossing 50,000 units. This translates into a growth of 34% quarter on quarter and 81% year on year, consolidating a significant leadership position with 80% market share in September. The performance is driven by capturing a very disproportionately high manner, the conversion of diesel markets to CNG. Our shares in the cargo and diesel segment have also increased. All the increase in market share has been achieved while improving EBITDAs and pricing premium over competition. Electric three wheelers were launched in Agra, and we have completed a quarter of our pilot over there and they have been received extremely well with Bajaj Auto E-three wheelers capturing almost 70% market share in Agra within the quarter. We have commenced our phase two calibrated expansion program which will take us to 40 cities in the next six months. After Agra, we have already entered about 10 cities. A big push will happen thereafter in FY2025. Our approach is to first attack markets where ICE autos are not permitted, and this brings in new business to the Company. It is important to state that at this point the E-three-wheeler business is not margin dilutive for us and therefore we are keen to drive its expansion while ensuring a very high standard of customer service.

On Chetak, as mentioned before, supply chain work has increased our capacity and reduced costs, allowing us to open up the network, right price of product and drive sales. We are now in 120 cities with 140 exclusive sales and service stores covering almost 75% of the high-speed EV market. Our market share has increased from 4% in FY2023 to 11% in September in retail terms. We are pushing to breach the 10,000 sales mark this quarter and then build on it next quarter. Within Q3, we will present two upgrades and follow this up with a further expansion of the range in Q1 of next year. Our network alongside will expand to about 180 cities by the time we exit the financial year.

Our premium biking business, Triumph, as you know, it has received a tremendous response since its launch early last quarter. Deliveries of the Triumph Speed 400 commenced by end of July, and we have received an overwhelmingly positive customer as well as professional user feedback pushing us to fast-track deliveries to over 8,000 units in Q2 and we have conducted already tens of thousands of test rides. To support this momentum, we are building system capabilities on the front and the back end. Currently we have a capacity of 5,000 to 7,000 units per month which is being expanded further in coming quarters and should go up to about 10,000 units per month by the time we exit the financial year. This will allow us to take the brand to over 100 cities by the end of FY2024 from the current count of 20 cities and all this through best-in-class exclusive stores. We launched the Scrambler 400X early last week at an attractive price of ₹2.63 Lakhs ex-showroom with the promise of delivering off-road finance like its elder siblings, the Scrambler 900 and 1200, very successful models worldwide. The early interest in this vehicle is encouraging. The professional feedback is also very inspiring, and we are eagerly awaiting for a similar customer adoption for the Scrambler as we had for Speed 400. Exports of Triumph bikes will commence by the end of this month or maybe just the first 2-3 days of November. The product and prices have been unveiled in several international markets and there is palpable excitement about the arrival of the smaller Triumphs there.

This quarter, we have also launched the all-new generation Duke 390s and 250s in the KTM range. These gen-3 gen-Z KTM Dukes are a very good leap forward, combining KTMs ready to race DNA and drawing from their larger sibling, the KTM Super Dukes. A new

Husqvarna range is also on the card, and we expect this refreshing portfolio to energize the sales performance.

As we move forward into the rest of the financial year, our focus will remain unerringly on delivering outstanding outcomes in five business areas which will define the Company's overall performance. Number one continues to drive growth in 125cc+ segment, building the Pulsar franchise to new launches. Number two ensures 80% market share in three wheelers and steadily expands E-autos. Number three ensures a steady export recovery with a quarter-on-quarter improvement in sales in every market. Number four expands the Chetak business to 10,000 units per month based on new launches and good supply chain support. And finally, number five scale up the Triumph sales in India and in due course in overseas markets too. With this let me hand over the call to Dinesh to take you through the financials. Thank you.

Dinesh Thapar: Thank you, Rakesh. Good evening, everyone on call and thank you for taking the time this evening to join us. Let me start by saying we are very pleased with our performance in the context in which it has been delivered. It has been a record quarter coming on the back of what was the previous record quarter, in Q1 itself. As usual, let me start before getting into the financial commentary, with a quick roundup of the operating context, which really has underlined our delivery of the results this quarter.

On exports, you heard Rakesh talk about the environment which remains very volatile with continued macroeconomic challenges across our key markets. We are doing well to really be able to build back volumes trying to make each quarter larger than the previous one. You know that we hit a peak volume of 210,000 units in FY2022 when markets were buoyant and flushed with liquidity that went down to 115,000 in Q4, has built back to 130,000 in Q1 and 140,000 in the current quarter.

On domestic motorcycles, overall industry motorcycle growth has continued with the first half being mid-single digit and Bajaj Auto clearly outpacing the market and our continued thrust on leading premiumization of the 125cc upwards which has augured well from mix as well as seen us outstrip the market by quite a multiple. The market for commercial vehicles has remained buoyant over the last few months, which has also led to us registering a record performance. Industry by and large has revived to the pre-COVID levels, and you know we have said this earlier that Bajaj had already recovered to pre COVID levels a few quarters back and we continue to outstrip the market and the industry.

On commodities, by and large the state of the basket was favorable. Commodity costs have softened particularly on the metals complex. We seem to be fast approaching levels that we had seen in the second half of FY2023. You will recall that in the last call I had mentioned that we have seen a slight uptick on steel and aluminum, but that has settled down towards the end of the quarter and we have continued to see stable and soft commodity prices through this quarter as well and therefore some level of tailwinds to our profitability. The currency situation has remained stable to slightly positive with export realizations coming at 82.6 as against 82.1 in Q1 and 79.8 for the same period last year.

Now with this operating context, as a backdrop, I think we did a fine job of reporting our best ever performance on all counts on revenue, on EBITDA, on margin over a five-year horizon and on PAT. Coming to revenue, our revenues at ₹10,777 crores represented an all-time high, was up 6% year on year. However, I would like to draw your reference and Rakesh alluded to this mention that the base period clearly was faced with very stiff competition. It was when we were filing back inventory having resolved the semiconductor issue and therefore, I would like you to focus a lot more on the normalized performance in the first half, which essentially points to a 60% revenue growth year on year.

Now just to make the point before we get to domestic business, which has registered another all-time high and a peak performance just to bring that alive with numbers. You will recall that the Q1 we reported motorcycle growth, I am just using motorcycles as an example, we reported motorcycles growth of 60% upwards on billing volumes and Q2 on motorcycle growth, we are down 23% that essentially represents those two that we had because it was coming off a depleted Q1 in the base and a filled back quarter in Q2 in the base, right and so therefore when you normalize it volumes for the first half are 7% even though our retail growth from both Q1 and Q2 and therefore half 1 are closer to 20%. So, we sustain momentum in retail terms, which is really the health of the business even though billing numbers and therefore reported revenues have been skewed between Q1 and Q2. Our domestic business registered a new peak. You just heard that they have mentioned on the back of six successive quarters now of double-digit growth, really led by the sustained competitive growth of the 125cc upwards on domestic motorcycles.

The momentum for the CV business has now hit a historic high. The last time commercial vehicles hit a record was way back in 2018 when it had done 122,000 units in a quarter. This is now a new record and a continuous scale up on Chetak.

EBITDA came in at ₹2,133 crores surpassing a very significant milestone of ₹2,000 crores in a single quarter and this is the very first time that we have surpassed it, registering a growth of 21% year on year. Our margins close at 19.8% up 260 basis points year on year, driven by dynamic price and cost management, which accounted for the most part, better foreign exchange realization and a richer product mix, which more than offset or covered for the drag arising from the investments that we are making in growing our electric scooters business. On a quarter-on-quarter basis, our margins improved 80 basis points. You recall we had reported 19% last quarter and largely arising out of the seasonal mix that we had called out then on domestic motorcycles given the festive season so it was 19.0% and for the 80 basis points that we have improved in the current quarter is really coming on the back of softer commodity costs and better product mix, really driven by the higher sales of three-wheeler portfolio which offset a part of the drag that we have on mix coming out of higher volumes into Nigeria. When you look into it from a price and cost perspective, I would say pricing across the breadth of the business after adjusting for the pluses and minuses has been flattish. So really marginal improvement sequentially coming on the back of softer commodity costs and an improved product mix largely led by the buoyancy of our three-wheeler business.

Finally, we closed the quarter with a record net profit of ₹1,836 crores and a cash surplus of nearly ₹17,500 crores having added almost ₹3,600 crores of free cash flow in the first half of this year that represents a very significant 60% increase over the same time last year. And this cash surplus of ₹17,500 crores is after having disbursed nearly ₹4,000 crores of dividend. As you would make up, the balance sheet therefore remains very robust and healthy with this cash surplus and allows us enough fuel to be able to invest competitively for growth and investments as we look forward.

Let me end by saying looking forward, I think there are a range of priorities that Rakesh summed up with and I would like to quickly call out before we hand over to you for questions. Our priorities of course, remain to sustain the momentum that we are seeing in this business both on top line and bottom line within the upcoming festive season, continue our market beating growth on the M3 & S1 125cc upwards segment, build back export volumes and really inch it up as we are seeing it gradually try to make each quarter bigger than the previous one in trying to get back to the heydays of the 200,000 which could still be some time away by really inching up quarter by quarter, step up Chetak market share which has now doubled over this last year from 5% to an exit share of 11% by the end of September through a range of product interventions, activation, and network expansion. Retain the momentum of our three-wheeler business and roll out electric three-wheelers to many more cities, which has received a very encouraging early response. Scale up Triumph and capacity is being built both at the backend and the frontend to really cater to an expanded domestic network that will be covering almost 100 cities by the end of this financial year and the start of the exports business that we hope to see in the next couple of months, essentially between December and January, as conversations with Triumph are underway. And lastly to sustain profit and margin delivery through dynamic P&L management and given the commodity cost situation as it stands, expect to be flattish in the quarter ahead and so this remains a priority as we dynamically manage the business for growth to sustain our margin as we look into the quarters ahead. With this, I would like to hand the session back to Anand and then open it up for questions. Thank you for your time.

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

Moderator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Anyone who wishes to ask a question, may press * and 1 on their touchtone telephone. If you wish to remove yourself from the question queue, you may press * and 2. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Gunjan Prithyani from Bank of America. Please go ahead.

Gunjan Prithyani: Hi thanks team for taking my questions and thanks for really comprehensive update across businesses. Before I get to my question, I just wanted to check one quick thing, were there any one-time costs that we need to keep in mind around Triumph launch in this quarter?

Dinesh Thapar: Nothing of significance Gunjan. There was a cost at the launch event that we incurred, but I would say in the overall scheme of things that is not very significant.

Gunjan Prithyani: Okay got it. Now two questions from my side. Firstly, on three-wheelers, clearly this business has been surprising positively. I just wanted to understand if you can share your outlook in terms of what is really driving the market expansion here and it was quite intriguing when you mentioned that the margins for electric three-wheeler are actually not dilutive. So, if you could just share thoughts on how we should think about this business over the next 1-2 years and this whole scale up of electric three-wheeler, is it contribution margin positive, is it EBITDA margin positive, if you can share some thoughts around that?

Rakesh Sharma: For ICE three-wheeler business, the fundamental driver is conversion. There are two things, one is of course in line with every other segment of the auto industry, there is a recovery post COVID, and people are coming back on the streets and there is traffic and there is need for mobility and the earnings of the three-wheeler drivers have improved which has unlocked the retail finance, 90% of the business was financed. So those drivers have started to kick in and drive the thing. The second thing is that the country has very decisively promoted the usage of CNG and the CNG powered three wheelers really deliver a much better economics compared to diesel powered. Now traditionally our market share in the diesel segment was much lower but on the back of products which are really best in class, we have enjoyed a very high market share in CNG powered vehicles so as soon as the pipeline network penetrates territory, we see a migration from diesel to CNG in a very powerful manner and when that migration happens, the first choice is Bajaj Auto so therefore we are seeing excess CNG passenger level. Our market share of 90%-93% like nobody is able to sell any CNG three wheelers and so much so that now the CNG distributors like the public sector undertaking, they work very closely with us because this auto line gives them a good 8%-10% off take of their CNG. So, they are also very interested in making this happen. So, the system is working well, and I think this should continue. There are still vast areas left where the network is rolling in. The numbers are not coming to my mind, but I think the government this year has got some idea of some 4,000 new pumps being put in and the more they do that, the drive will continue. So, the ICE business is set.

The E-auto business now if you see over the years what has happened is that because the autos were restricted in large parts of north and east, it has given rise to this semi organized industry, what we call the E-rick which are both lead acid and now, of course, lithium-ion powered and the need for intracity mobility has been very, very strong in the smaller towns of northern India. I am sure if you travel to Saharanpur, Lucknow, and these places you might have seen how choked the system is with these small three wheelers and they are now 50% of three-wheeled mobility. Now when we enter with E-auto, which are expensive but they do not require permits so there is a very strong possibility of converting the E-ricks as they are known to E-auto provided they deliver a value performance. So, the entire north and east is our first target and there we do not sell too many ICE autos and we should be able to get the E-autos moving over there. I am going to let Dinesh take on the margin point but the way we have done the pricing, we find that we are largely more or less agnostic to E-auto or ICE auto.

Dinesh Thapar: To your point, we are driving for near parity margins between the E-auto and ICE auto. It also helps, one, of course for incremental growth opportunity, but in many ways, it becomes agnostic of the fuel type as we said across markets but to the point that you asked very specifically, yes, it is an EBITDA margin positive and for a few reasons. When you think of the contribution of the battery cost therefore the cell cost, the overall cost is relatively lower compared to that of a two-wheeler. We have not added significant manufacturing cost, establishment cost or marketing cost. We are putting up a new EV three-wheeler factory in Waluj that will come up at the end of the year, but we are not really expanding fixed costs substantially for it to affect the economics. Limited marketing and advertising spend, given the very strong equity that Bajaj has, and the fourth factor really is that PLI adds on to it as well because clearly domestic value addition in the case of three wheelers is comfortably poised well over 50%, which is an essential condition for PLI.

Gunjan Prithyani: Okay got it. This is super useful. Just second question Dinesh specifically to you, this dividend policy change, can you tell us a little bit as to what triggered this change and I do see the scope of fund deployment has been expanded to quite a few new inclusions. So, if you can just give the thought process around it and earlier again buybacks were not part of that shareholder return that you spoke about that also seems to be included so if you can just share what triggered this and why the change now?

Dinesh Thapar: Thank you Gunjan for picking it up because we were hoping it would come up in Q&A and therefore, we would answer it. At the Board, we discussed today the amendments that we are making, I think taking cognizance of the fact that there are multiple routes these days available to really reward shareholders or payout excess cash, right and so what we have done is to really expand the remit of that to a concept called the overall payout to shareholders, which would be a function essentially of the dividends plus the buybacks or any other such similar routes that might exist probably in the future but really expanding the remit to a variety of ways by which you can return cash to shareholders. Despite the earlier dividend policy that we had with slabs set up, we think based on the PAT of the year and the surplus funds that are available on the balance sheet now there are various slabs that we propose to give out. Fundamentally we alter it. The first slab is at 50, which is similar to what it was in the past. The second slab was 70%. For cash in excess of ₹15,000 crores, earlier we used to say up to 90%. We just said greater than 70% because then it allows the Board the degrees of freedom to decide how we need to pay out to shareholders over a period of time through mix of dividends and buyback. So, we have just expanded the limit to really call out that buyback might be one more way of returning surplus cash to shareholders in the future and remains at the discretion of the Board then to do it through a mix of dividends or buybacks.

Gunjan Prithyani: Okay got it. Thank you so much.

Moderator: The next question is from the line of Amyn Pirani from JP Morgan. Please go ahead.

Amyn Pirani: Good evening and thanks for the opportunity. My first question was on exports. You mentioned that you are expecting a gradual recovery. Within exports it seems that three wheelers as a category have been impacted much more than two wheelers and I am guessing it is because some specific markets which were large contributors are near zero right now. So, if you can give some comments around how you see the three-wheeler export recovering and are there any new markets or new opportunities which could offset some of these larger markets like Egypt which have gone into some kind of regulatory bans kind of situation?

Rakesh Sharma: Yes, you are right, the three-wheeler recovery is slow, and if you see, Egypt had hit us even before this downfall commenced in Q2 of last year. So, there is something which has already impacted us. In terms of the CV whether there is any other market which is behaving very differently, no, I would not say that. It is just that because the three-wheeler is a more expensive product it becomes that much more difficult for people to acquire it. It is following a very similar pattern to a two-wheeler, so it is largely country driven and a few percentage points behind a two-wheeler but following the same trajectory as two wheelers. In terms of making up the deficit of Egypt, which was a very, very large market for us, we have got about 11 markets, which I would not like to name, which are under active business development. I do not think any single market will replace Egypt, but in a combination if the markets improve, we will start to see this mitigation happening in these 11 markets. You see, we have been through this cycle before. We used to export 20,000 units 7 years back out of which 10,000 were to Sri Lanka and then Sri Lanka banned it, but we went to 25,000 units with zero in Sri Lanka on the basis of opening up Cambodia, Philippines, Ghana, Mexico, Colombia, Bolivia. We have dozen countries which collectively combine to overcome this 10,000-unit gap so that is how we sort of met the challenge of the ban in Sri Lanka. The same way we are approaching the Egypt issue. It is just that the macroeconomic conditions have made business development a little bit more difficult, but over a period of time through these new markets, we should be able to overcome the Egypt deficit.

Amyn Pirani: Okay that is helpful. And just going back to the three-wheeler or the E-auto where like you rightly mentioned you have already gained a lot of market share in the cities that you have launched. As you expand this, how do you see the value proposition of a CNG and EV. I guess it's clear that both of them are winning against diesel as a whole but between the two, I mean is CNG still a better value proposition than the EV how do you think you would like to position it as you expand going forward?

Rakesh Sharma: The E-auto is a better proposition than CNG in these conditions, which are if the FAME is not disturbed as things stand now. The other thing is that in a lot of markets when people buy CNG vehicles, they also have to buy a permit and that itself is very expensive. So, the acquisition cost in markets where it is restricted and permits are not freely available and in those markets E-autos do not require any permits, so it is much, much better.

Amyn Pirani: Okay that is quite helpful Sir and thank you for taking my questions and all the best.

Moderator: Thank you. The next question is from the line of Kapil Singh from Nomura. Please go ahead.

Kapil Singh: Hi Sir, good evening, and congratulations on a strong set of results. My question is on the three-wheeler ICE business, do you expect the volumes to grow from these levels as we look ahead?

Rakesh Sharma: Yes, we think these volumes will continue to rise on the back of the penetration of the CNG network and the recovery in traffic condition but again it will be steady progress. I do not expect them to rocket upwards because we are at a very, very high level and now, to be frank, we have reached a very high level of market share. So, the growth which we have seen in the last six months or so has been driven by the recovery of the market, penetration of the CNG network and expansion of our market share from 60% to 80%, in CNG has gone to 90%. So now I think we will ride the market growth rather than the combination of market and share growth. So therefore, there will be growth, but it will be muted. It will be less than what we have been experiencing.

Kapil Singh: Thanks Sir. Second question is on electric two wheelers just wanted to understand that as we look to expand the portfolio, which segment customer are we targeting for example what I am trying to understand is the 100cc motorcycle customer also looking at electric two wheelers. Is it only the scooter customer who you think we will be addressing and in that context what kind of electric mix are you thinking about for scooters or for motorcycles going ahead?

Rakesh Sharma: We are targeting all those customers who are very economically driven and for whom this scooter format is acceptable. So, you will find that people adopting the electric two-wheeler range from people who had previously owned entry level motorcycle to somebody who is buying it in addition to supplementing a car in the garage. We have got the full spectrum of users and the proposition which is really getting traction for electric two wheelers are one based on economics that simply as things stand now people save money depending on how much they ride every month. Anybody riding 50 kilometers and above saves a substantial amount of money by shifting from ICE to electric.

Kapil Singh: Just to conclude. I mean do you think at some point the ICE two-wheeler industry will sort of stop growing do you see that on the horizon in the next 2-3 years.

Rakesh Sharma: I do not think so because if you sort of step back and see overall the penetration of ICE has been low, still some scope over there. The road building program is always very good in terms of facilitating the sale of ICE particularly for intercity commutes and if you see we have not yet recovered to the 2018-2019 peak as an industry. We are still about 25-30% down over that peak and I think the ICE industry is very much dependent on how the economic recovery reaches the pockets of the customers at the bottom of the pyramid. As economic recovery is happening, consumer optimism is improving. We are seeing an improvement at ICE and therefore we do not see in the near term that E-two wheelers are going to apply the brakes on ICE. They will continue to grow the penetration. Having said all this, we have to see the recent data after the recent FAME reduction, you will see that in the last three months, high speed EVs have been only 65,000 units per month. Festive may pump it up for some time, but there are only 65,000 because the acquisition cost is very high. It makes monthly sense, but the acquisition cost is still high most of the two-wheelers on-road prices are ₹1.25lakhs to ₹1.3 lakhs and the customer who is really receptive to this is the economically sensitive customer. So largely that is a segment, so therefore the penetration has sort of slowed down.

Kapil Singh: Thank you very much Sir. Great answer and wish you all the best.

Moderator: Thank you. The next question is from the line of Chandramouli Muthiah from Goldman Sachs. Please go ahead.

Chandramouli Muthiah: Hi good evening and thank you for taking my questions. My first question is the clarification of the E three-wheeler profitability commentary so I think we were making a statement that it is not margin dilutive for Bajaj Auto and also we sort of commented that it is on margin parity with the electric two wheelers I am just trying to understand should we think about it as a positive margin product or should we think about it as on par with other corporate EBITDA margin in that 18 to 20% switch.

Dinesh Thapar: Thank you. The line was a bit foggy, so we missed the question. But I think just to rephrase, your answer whether the margin profile for the electric auto is at parity with the enterprise or with the CV businesses if that is your question, I mentioned that the margin is at parity with our CV business after considering the impact and the benefit of the PLI.

Chandramouli Muthiah: Got it. That is helpful. My second question is on the electric two-wheeler business. So you did mention a plan to get to 10,000 plus units per month there and there was some commentary on the number of products that you might launch in the remainder of this fiscal year and the next fiscal year so if you can just clarify again what is the product pipeline in terms of some number of launches planned in this fiscal year and the next fiscal year on the electric two-wheelers side.

Rakesh Sharma: Yes, so like I said once this festive is over, we will be introducing new models in Chetak and by the time we are sitting down at the same time let us say next year, we will have a much fuller range. We have set up exclusive showrooms. One of the reasons why we were doing that was when we were thinking about whether to go to exclusive Chetak showrooms or take the easier way out of putting them in Bajaj showroom like some other people have done. It was because we were sure that as this market grows, it is small right now, it is only 65,000 units, 70,000 units, it is small, but as it grows it will need to be segmented and these segments will need different products. And we can see in the market also some companies have got a range of products. You cannot do justice to a range of products without having an exclusive showroom. So that is the reason that is always there in our mind, so we are starting from post festive we will have introductions which will expand the range. So, you can expect something starting from let us say November onwards and then something by end of Q4 and then further on in Q1 and Q2 these products will be introduced. I cannot really talk about what specific product etc at this stage.

Chandramouli Muthiah: Got it. Thank you so much for your response and all the best.

Rakesh Sharma: Just suffice it to say that we are now in a phase where we are going to expand the business volume metrically, expand the retail network substantially and expand the range. So, we are at that phase now which you would have already seen with the rise in market share. We are only hoping that FAME does not play a spoiler and does not retard the penetration rate which has stagnated in the recent past.

Moderator: Thank you. The next question is from the line of from the line of Raghunandan NL from Nuvama Research. Please go ahead.

Raghunandan NL: Thank you Sir for the opportunity. A couple of questions to Dinesh Sir. Firstly, steel and crude derivatives have seen some increases recently, do you expect some cost increase in commodity basket for Q3 versus Q2.

Dinesh Thapar: Thank you for your question. You are right very recently there has been a slight uptick, but I think when I look at the forecast out ahead for this current quarter which is essentially Q3, I think given the softening on some of the other commodity baskets especially noble metals which have kind of corrected quite significantly. So, I think on balance I would expect the quarter to be quite flattish from commodity costs.

Raghunandan NL: Thank you good to hear that. Dinesh, Sir, can you share some numbers on spares, exports, and financing ratio for the quarter?

Dinesh Thapar: So, our exports was about 406 million for the quarter, you have our exchange rate that is 82.6 and finance penetration for the quarter for our motorcycles business was 77% and 90% for our three-wheeler business, not fundamentally different from what might have been in the previous quarter.

Raghunandan NL: And share of Bajaj Finance would be.

Dinesh Thapar: Share of Bajaj Finance would be 43% of the total retail.

Raghunandan NL: Okay and the spares number Sir, if you have it handy.

Dinesh Thapar: Spares is anywhere between ₹1,200 crores to ₹1,250 crores for the quarter.

Raghunandan NL: Thank you so much and lastly can you share the Triumph pending order book?

Rakesh Sharma: Quite frankly I do not have that number readily in my mind, because we have stopped monitoring it. We were only monitoring the bookings when we launched the booking campaign so now it has gone into business as usual as it is with Chetak or as it would be with any of the motorcycle or three-wheeler businesses where it is not something which we are really looking at. Before the deliveries had started, we were monitoring, and we reached something like 18,000 at that point in time. We have delivered 8000 but there have been fresh bookings also. So, you can assume that it is still around 10,000 if not an upwards mark.

Raghunandan NL: Thank you so much Sir, wishing all the best.

Moderator: Thank you. The next question is from the line of Mumuksh Mandlesha Shah from Anand Rathi. Please go ahead.

Mumuksh Mandlesha: Thank you so much for the opportunity. So, with strong festive growth expected led by an uptick in consumer sentiment how do you see the full year domestic industry growth versus the earlier guidance of 5% to 8% and can you indicate what could be driving the better consumer sentiment there?

Rakesh Sharma: Well, I would sort of wait till November end to see whether the sparkle of festive growth is like a *phuljadhi* or is a more sustained improvement in the fortunes of the industry because one thing which we have noticed over the years which you would have also picked up is that the highs and lows have become sharper. I mean earlier 33 days of festival accounted for 15%, 17% of the year. Twelve months means 8% on the average for each month, but festive would account for double, which would be 16%-17%. Now it has become 20%. So, we cannot extrapolate this 20% and say that is how the balance of the year would be so therefore I say that one would need to look at post festive November to really take a call whether the fortunes of the industry have decisively shifted from the 8% range to the double-digit range or not. Right now, I would say if you were taking a full year viewpoint. I would still say that yes 5% to 8% is where the trajectory is. Let us see how it goes in November and then we will be able to take a call.

Mumuksh Mandlesha: Got it Sir. Just on the EV potential for exports market for both two-wheeler and three-wheeler, just wanted to understand have those markets also developed any EV ecosystem there?

Rakesh Sharma: The penetration of electric two wheelers outside Europe and rest of the world is very low but they are on the horizon, and everyone is dealing with the issues of cost, price, margin, range anxiety, and battery life and things like that. The ecosystem, I must say outside of Europe is not as well developed as it is in India, but there are opportunities which are bubbling because of our very wide footprint all across the world. Obviously, we are monitoring these both for two wheelers and three wheelers and appropriately we will enter some of these markets. It is very much in our planning and again, I do not want to sort of jump the gun and announce which markets we are entering, but very much in the planning.

Mumuksh Mandlesha: Thank you so much for this.

Moderator: Thank you. We will be able to take one last question. We take the last question from the line of Binay Singh from Morgan Stanley. Please go ahead.

Binay Singh: Hi team thanks for the opportunity. Just going back to the electric three-wheeler comments that you guys made, quite interesting to note that the profitability is closer to the ICE version. Just to understand, do you think that will also be the case when you ramp up pan India or is it just that you are in a small pocket, so the competitive intensity over there is lower and secondly linked to that when we talk about why the electric two wheeler margins are a lot lower than the electric three wheeler, Dinesh highlighted three things right PLI, battery cost being lower and lower advertising and sales spend so looking at these three it is very likely that PLI will go in two wheeler also. So how do you see the two-wheeler margins then trending over a period of time like scale build up over there. So, any comments on sustainability of this three-wheeler margin that we are talking about in a pan India basis and then any comments on trajectory of two-wheeler how does that churn.

Rakesh Sharma: So, I think there are a lot of things which should be clarified to you so please listen carefully and take the notes because number one, who told you competitive intensity is low in the markets where we have launched. We are in fact the last mover because there is Piaggio and M&M and a host of other companies. All the players who are present all over India are also present in the places we launch. The reason why we delayed our launch is when we did our testing and trials with a consumer, we got strong feedback about certain expectations they had from Bajaj Auto because they feel Bajaj is the leader. So, we had to go back and last year I was constantly telling you that it had been postponed and for this reason that we had to get the product so off in the bull’s eye region and only then launch it. So, people had a head start over us. I do not think that the competitive intensity which we will now encounter as we move into newer and newer cities will be more or less. If we do not encounter E-rick then it might be less. So, I would say the competitive intensity is the same. The very important point which Dinesh highlighted to the reason why the margins are different, which I do not know whether you mentioned or not but the key reason, the biggest reason is that the component of the cost of the battery in the vehicle present between two wheeler and three wheeler is different, so three wheeler it is much less, secondly in three wheeler only the battery has changed for us and there has been a little bit of some other stuff which is there, it is essentially the same three wheeler, what we are saying to the customer *'Technology nayi but barosa wahi'*, essentially the power train has changed and the three wheeler has remained the same. Marketing and all the other costs are a smaller factor. The PLI, I think you are confusing PLI and FAME. The PLI is equally applicable to two wheelers also and to three wheelers also.

Binay Singh: Right. I was just picking up from the comments that Dinesh made but then to an extent, this is a very encouraging commentary.

Rakesh Sharma: I also want to say when space gets limited your ability to adopt one chemistry or the other also gets limited. Now when you have a larger spaced vehicle like a three-wheeler, you have options of different types of chemistry. I mean we do not have to pack them so tightly and therefore you have better flexibility in making more value decisions on the budget, so it is not just about that the battery cost is constant and it is divided by the total vehicle cost. The battery cost itself can change because you have a greater degree of freedom in choosing a better value battery.

Binay Singh: And then just look at it in terms of growth because then it looks like a good growth vertical for us that.

Rakesh Sharma: Yes, it is.

Binay Singh: And would you say that between all the business segments, just taking like a three-year CAGR view or so fair to say that the three-wheeler business, ICE plus EV domestic should at least be on track or in a similar run rate as the two-wheeler business because like this is opening up a new vertical, right the EV side opens up market which were earlier restricted.

Rakesh Sharma: So it will be on a healthy track, but at the same time I feel that the two-wheeler business for us and particularly with the now tailwinds supporting the top half of the industry more than the bottom half and that is our playground where we have strengthened and the fact that we still have a lot of room to grow in terms of market share even in the 125cc+ segment. The 250cc to 500cc segment is opening up for us. Thanks to the Triumph collaboration. I mean we were in a very, very marginal presence through Dominar 400 and a little bit of KTM. This is a vast segment which is opening up and the 125cc+ segment also offers us continued opportunities to increase market share and for that we are well placed in terms of our DNAs, product innovation, and leveraging R&D and all that. So, I would say that the two-wheeler business also has got very significant upside opportunity for growth. Let us say a year back we could not imagine it or envision it over the three-wheeler opportunity that was looking for like tanking but thanks to the surge in CNG and thanks to the recovery and now of course the ability to take the E auto and cannibalize the E-rick, three-wheeler business also comes back very strongly as the growth vector for us.

Binay Singh: Just lastly how many electric three wheelers did we actually sell in the quarter is the last question.

Rakesh Sharma: Six hundred.

Binay Singh: Great. Thanks a lot team. Thank you.

Dinesh Thapar: I am guessing you are aware of it, but just for it to register with the rest of the audience the PLI is about 13% once DVA norms are met and we are clearly meeting them very comfortably because we already have an existing auto business, a three-wheeler business. So really the benefits of localization are being extended to that business. Therefore, we are meeting the DVA quite comfortably and also the proportion of the battery pack to the overall cost is much lower so when you are meeting the DVA percentage the up set that you get on PLI is 13% which is quite significant and that in many ways helps bridge the economics of the E-auto with the ICE auto.

Binay Singh: And that we are getting the PLI incentive so is it already something that you are getting, or you will start to get it?

Dinesh Thapar: The process that the government is mandated which we are going through, which essentially involves a certain process that has to be followed with the testing agency registration and eventual certification for PLI. So, we are going through hoops on that one, but the fundamental condition on domestic value addition being at a 50% threshold is comfortably meet for the year.

Binay Singh: In this quarter there is obviously no PLI incentive.

Dinesh Thapar: Because we have product and we clearly wanted to do a calibrated launch so we have launched without the benefits of PLI coming into the financial at the moment, but we are going through the process of certification, so we should have it at some point.

Binay Singh: Great. Thanks for that Dinesh.

Moderator: Thank you very much. We will take that as the last question. I would now like to hand the conference back to Mr. Anand Newar for closing comments.

Anand Newar: Thank you everyone for joining the call. I can see a few participants still waiting to ask questions, and I am happy to take those questions after 8:00 pm today. Thank you and all the best for the great festival.

Moderator: Thank you very much. On behalf of Bajaj Auto Limited, that concludes this conference. Thank you for joining us, ladies, and gentlemen. You may now disconnect your lines.