"Bajaj Auto Limited
Q1 FY2023 Results Conference Call"

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Moderator: Ladies and gentlemen, good morning and welcome to Q1 FY2023 Results Conference Call of Bajaj Auto Limited. My name is Michelle 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 '0' 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, Michelle. Good day, everyone and welcome to Bajaj Auto's Q1 FY 2023 Earnings Conference Call. I trust that you all are keeping safe.

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 of the quarter. Then Dinesh will take you through the financial highlights. We will then open the forum for Q&A. Over to you, Rakesh!

Rakesh Sharma: Thank you, Anand. Good morning, ladies and gentlemen, and thank you very much for taking the time to join us for the call today. Let me begin with the highlights of our performance in quarter 1.

Overall, Q1's effort and outcome was defined by supply chain management, in particular, the management of ECU availability. As we had informed during our last call in April and as anticipated, we faced significant shortfalls in ECU availability of about 20%. 20% to 25%, in fact, with the domestic business being hit the hardest with shortfalls of up to 40%. This has resulted in severe depletion of channel stocks and indeed some loss of market share at a retail level.

Our booking system across all business units has indeed helped to mitigate the shortfall to some extent. We have also discussed earlier about our very robust effort launched through broad-based sourcing, ensure testing, validation and integration of new sources into our production systems. I am delighted to confirm that this plan has been largely on schedule and we are now under execution. The process of rebuilding severely depleted inventories has truly commenced.

May was our lowest point and June was better than May. And July is only a few days left now – is looking better than June. This trajectory is expected to continue. And through quarter 2, we will not only build the inventories back to normal levels, but we will be in a position to meet demand. This rebuilding will not only be occurring in India, but also across the world whereas the only exception to this will be our electric scooter Chetak, where whilst month-on-month dispatches are improving, supplies will still trade behind demand in the short term.

Now let me briefly comment on each business unit, starting with the export business unit. The export business unit turned in a steady performance of almost 200,000 units, 193,000 per month to be precise. The ECU shortage also impacted exports by a lesser extent. We estimate about 10% impairment to plans there. And this impairment was unfortunately set most in the sports segment in Latin America, and to a smaller extent, in some 3-wheeler lines in ASEAN.

At a global level, our market share in exports remained steady, even after taking price increases, which were generally ahead of competition. We acquired market share in LATAM and ASEAN and maintained in the Africa region. I will call out the outstanding performance of our twin brands, Dominar and Pulsar in the sports segment of LATAM. In fact, the twin Dominar models, the 250cc and 400cc are expanding this segment all across Latin America. And with these 2 brands, we are now a solid leader across all countries of Latin America in the very attractive sports segment.

While our competitive position in overseas markets remain absolutely solid, we are carefully monitoring the trading environment. The sharp trending of the U.S. dollar has 2 impacts. Firstly, is the devaluation of local currencies, as you know, a lot of the emerging market currencies have got quite rattled by the sharp trending of the U.S. dollar, and this leads to an increase in retail prices. The second impact is in the availability itself of the U.S. dollar. And combined, in the short term, we do anticipate challenges in managing a few markets in Africa because of this issue.

Coming to the domestic motorcycles business unit. We faced shortfalls from plan of up to 40% with the worst ones, like I said, was in May. We estimate that this has impacted our retail market share by 2 percentage points and depleted channel stocks to under 3-week levels which is expected to gain. And of course, in some of the lines, as you know, under 3-weeks is an average point and some of the lines is down to less than a week.

This being a 2-tiered distribution, the stock norm in general is 6 weeks. So we have a lot of covering up to do in the months of quarter 2. During this period, we took care to funnel the short supplied ECUs because of the semiconductor problem into the expanding 125cc segment. And there, we have had handsome gains in market share now reaching 25%.

I called out the performance of the premium 125cc, which is the Pulsar NS125. The outstanding performance continues. It is our most expensive 125cc. The most expensive 125cc in the market if you keep aside the KTM and it has now become a very significant contributor to our 125cc portfolio, obviously, making a good impact on the brand EBITDA.

All of this has been, including KTM, were severely affected by the shortfalls. The penetration of retail finance grew and particularly Bajaj Finance amongst all the players. Cash sales were actually almost stagnant. The finance sales grew by 4 or 5x that of cash sales.

Demand recovery in urban and semi-urban areas was experienced to be far ahead of what is happening in rural areas. Our new platform in Pulsar has been received extremely well by both the experts and amateurs. Expanding on the twin 250cc class introductions of the Pulsar F250 and N250, we have recently introduced the naked dual-channel NS 160 to this platform. This is a first in its class and the early excitement surrounding the launch is very heartening. We have started to roll out with West Bengal and Uttar Pradesh and we are already experiencing stock-outs. So supply chain is scrambling to ensure that we service those customers who are coming in and booking this product.

We also introduced the All Black Twin Channel ABS version in the 250cc on the back of popular demand. There is a lot of request for this type of color and graphic. And we responded quite rapidly to that and introduced these two, which are again seeing a very good uptake. Further models are going to be launched in the next 4 weeks, adding exciting options in our portfolio from the 125 whole way up to the refreshed 400cc Dominar starting now was embellished with some touring features and accessories.

The overall industry demand has started to show signs of recovery. So a simplistic quarter-on-quarter comparison may suggest otherwise because of a very low base of previous year caused by the second wave of COVID being a bang in the middle of quarter 1 last year. If you normalize for that effect, we believe the industry would still be in low single-digit decline in quarter 1, but this is a very good improvement from the declining rates of minus 15% to minus 20% being experienced in Q4 and Q3 of last financial year. So the trajectory is pointing upwards. And well you can see on that basis that there is a recovery. We therefore expect the demand environment to continue to improve on the back of overall economic growth, which is now finally trickling down to our kind of segments.

Our objective in Q2 will be to rapidly build up channel stock, like I mentioned. We are placing a particular emphasis on integrating retail stock positions very, very tightly with our product propositions and brand propositions. As we can see that this is a growth segment. And most importantly, we are going to be fully leveraging our new product launches. As you know, nothing excites the customer more in the auto sector as new product launches with these handsome product launches bang in the mainstream of the sport segment and the 125cc segment giving a great opportunity to engage with the customer in a reviving way.

In commercial vehicle – domestic, the business again suffered a similar impairment of plan to the extent of 40%. There has been some loss of retail level market share there too. And channel stocks are now actually down to something like 10 days. We have a large order book as customers across segments, which is small passenger, large passenger and cargo and all geographies, have preferred to wait for supply to resume. Indeed, the shortfall in Bajaj is actually reflecting in the underperformance of the industry in quarter 1.

Introduction of electric 3-wheelers have commenced with product trials now underway in Pune and Delhi. In view of the release of permits for electric three-wheelers in Delhi, it is an important market for us to target and to get right. Our observation is that despite the release of the permit for 4,000 electric 3-wheelers – drivers there in Delhi have not taken them up and sales is less than probably 10%. They have experienced issues with current products which have been put out for electric 3-wheelers.

Hence, we decided to carefully craft our product trials to include Delhi, engage with the drivers over there, to ensure we provide to the drivers, the right balance between convenience, assurance and earnability. We are very conscious of our leadership position in 3-wheelers and in particularly markets like Delhi where we have traditionally commanded an 80% market share. We are very sensitive to our responsibilities, and we are going to take it step-by-step. And hopefully, if these light product trials, as I would like to call them, in Delhi had too much turn out, then we will expand the volume beginning with Delhi in the next quarter.

On electric scooters, Chetak’s sales doubled from 3,300 units in quarter 4 to over 6,200 units in quarter 1. Our geographic footprint has steadily expanded to now 27 cities and 43 dealerships including exclusive Chetak experience centers. Like this, during the previous quarter, we have made substantial progress instilling capabilities, which will ensure leadership in this segment in the medium term and these include commissioning of a new plant by Chetak Technology Limited in Akurdi and this new plant is spread over 0.5 million square feet. We put up in record time. And the investment in this financial year by Chetak

Technology will be above INR 160 Crores. It should have a capacity of 0.5 million units which we feel that should suffice in the short term of 18 to 24 months, and it is scalable at minimal cost and effort.

Alongside this plant, just across the road, is a dedicated center for R&D, where a large team has been put up. As we speak, massive recruitments are taking place to really complete the R&D centers there. And together, the plant and R&D will, in our opinion, form an absolutely world-class EV center.

We have completed a very detailed review of the opportunity for engagement with the B2B segment in India and overseas, both in the fixed battery and swappable battery formats. New products addressing this segment will roll out in 3 months' time, which will allow us to develop business in the rapidly expanding segment engaging with all the premium e-commerce companies, both in India and later on, obviously, in overseas. As part of this, we are also in discussions with good battery swapping provider so that as an alliance, we can provide the required solutions to these companies.

I had outlined earlier, and I want to reemphasize the objectives of the early phase of Chetak Technologies. And these are threefold. First is the development of the Chetak brand as the preferred choice of the customer in at least 100 cities, based on product performance and ownership experience. While we are not chasing volume, we are quite determined that whenever a customer, in at least these 100 cities, wants to buy an electric 2-wheeler, Chetak comes at the top of the consideration set. And we believe that a strong service network will provide a very important assurance to the customer in this very nascent category. The guide, of course, is having an elegant and well-performing product.

The second objective in our early phase is the development of strong R&D and supply chain capabilities, which will allow us to win big time in India and overseas in the medium term. And the third objective is to commence the expansion of the portfolio. And I just mentioned to you that soon Chetak, which is largely B2C proposition, from attacking the personal segments from that, we will now add products which will address the B2B segment. And some of this work will also be done through Yulu with whom we have a strategic alliance.

We are aiming to more than double sales of Chetak in the coming quarter and get ready to expand the portfolio in the following quarter, which is the October to December quarter.

A word about our spares business – ver the last 6 months, we have made a very, very conscious and aggressive attempt to expand penetration of spares and the domestic spares has grown quite handsomely on the basis of this effort by about 40%. And as I am sure you all know, the impact on profitability is quite good. The spares turnover itself in the domestic business is now almost 20% of our overall turnover. So it is a very significant business. And we are building very fundamental strength based on our engagement with retailers through, of course, our distribution partners, advanced analytics and improved fill rates.

With this, now I would like to hand over the floor to Dinesh Thapar, our CFO, for his commentary on the financial performance.

Dinesh Thapar: Thanks, Rakesh. Good morning to all of you and thank you for your participation.

Let me say at the outset that this quarter has had its fair set of challenges from an operating environment perspective. As you have just heard, we continue to have significant constraints on semiconductor availability, although the situation improved in the latter part of the quarter with newly developed supply sources kicking in. But it was yet another quarter of rationing where we were not able to fulfill demand in its entirety.

What is the heartening is that the retail numbers as we see it, are way ahead of what we had built out. But that has led to a significant depletion of stocks in the trade pipeline, and we hope to start building this back in the current quarter. Clearly, with an improved outlook on supplies that is now coming in from the very decisive actions that are being taken between us and our vendors.

I think the other notable trend that I want to call out, that appears to be emerging in a far more pronounced manner in recent months, is the weakening macros in some of the export markets. They are witnessing a mix of foreign exchange depreciation. There is volatility. And clearly, there seems to be some amount of unavailability of dollars in some of those geographies. And it is clearly creating some near-term hiccups, but we are very seized of this issue and looking to see how we can mitigate these effects. And of course, all of this is being aggravated by start of inflation across both domestic and international market and weakening sentiment.

Now it is against the backdrop of this operating context that I think and I believe that we were able to put up a good set of numbers. Our performance in quarter 1 essentially was a demonstration of our resilience to multiple headwinds and a reflection of how a well-diversified business of ours across segments, across geographies and dynamic management of the situation enabled us to weather this challenging environment.

You would have seen our numbers from now. Our revenue came in at about Rs.8,005 Crores, was up 8% over same quarter last year and near flattish compared to the previous quarter. We delivered this top line, having bridged the gap in volumes to deliver value growth in its finality essentially coming through a mix of judicious pricing, better foreign exchange realization and a very value accretive mix given the solid interplay of sales across segments and geographies. And Rakesh just made a mention of the very strong performance that we had on the spares part of the portfolio that clearly has aided our performance in this quarter.

Our EBITDA margin for the quarter was up almost at 16.6%, up 100 bps on a Y-o-Y basis. And if you recall, it is clearly better than our initial calculations. When we spoke the last time around in April, we were expecting margins for Q1 to remain under some amount of pressure driven by the outlook then on material inflation. However, as we progress, we have taken price increases. And parallelly, we worked on containing cost and inflation, which have helped improve our margins. And if I recall, I had mentioned at that point of time that we would look to recover anywhere between 50% to about 2/3 of the overall material cost to pricing and that is pretty much what we have done.

But what has also aided us this quarter is the depreciating rupee. And therefore, our export realization for the quarter has come in at Rs.77.4 compared to Rs.75.5 in quarter 4 and that essentially has helped us then bridge the gap on material costs and allowed us to really deliver some more margin improvement in the quarter.

Now when you look at it sequentially as well, our EBITDA margin for the quarter was broadly in line with the quarter 4 margin. And let me take a minute to explain this. We announced a headline margin of 17.5% in quarter 4. But if you strip out the effect of 2 one-off items that we had called out then, which was the full year accrual of the PSI, (Maharashtra PSI incentives) that we had accounted for in that quarter. It was for the full year and a onetime gain on the actuarial valuation of our employee benefits. If you strip out the effect of these 2, our margin was in the range of 16.8% against which we have come to about 16.6%. So again, as we then look at it across quarters, we think it is a good show relative to where we thought we would end up at the start of this quarter.

A quick word on the commodities and cash balance. Commodities has been a mixed bag. The first half of the quarter looked fairly tight, in line with what we had indicated at our last call. Whereas the second half started to ease out a bit, particularly on the metals basket that are now showing some signs of cooling off, which we hope will translate into the next quarter. However, the energy complex or energy-related derivatives continue to remain pretty stiff. And there is still some amount of pressure on that part of the input costs. But let me say it on balance, having looked at both metals and energy, I think our view on commodities at this point of time is far more comfortable than we thought it was at the start of quarter 1.

We ended the quarter with surplus cash of about INR 20,500 Crores, essentially having added approximately Rs.1,500 Crores during the course of this quarter.

Before we open up for Q&A, I need to talk to you about 2 specific topics. But first, let me draw your attention to Note 8 of our consolidated financial statements. As you would be aware, Bajaj Auto has an international subsidiary based out of the Netherlands, called Bajaj Auto International Holdings BV. BAIHBV, which is the entity that I just referred to, holds 49.9% stake in an associated called Pierer Bajaj AG. You would be very familiar with KTM and the transaction that happened last year between September and October, where the stakes in KTM were swapped into Pierer Bajaj. And so that is the entity I am now referring to. Now Pierer Bajaj has a subsidiary, which is Pierer Mobility or call it PMAG, which is listed on the SIX Swiss Exchange, which is in Zurich, the regulated market general standard of the Frankfurt Stock Exchange and on the Vienna Stock Exchange, which is the official market there.

Now there is a context why I am giving you this because for the current quarter ended 30th June in our consolidated financial statements, we have been unable to account for our share of the consolidated profit of PBAG. It has no bearing on stand-alone. And this is really due to the fact that there are differences in the regulations between India and Europe on the frequency for publishing financial results by some listed companies.

In view of this, we have been informed by PBAG that the results of PMAG, which is the listed entity that I just referred to, are required to be published only on a 6 monthly basis basis as per the stock exchange regulations that are applicable to PMAG and will be shared by Bajaj Auto only after that publishing calendar.So essentially, Bajaj Auto needs to prepare consolidated financial statements on a quarterly basis. PMAG by virtue of local regulation needs to prepare it only on a 6 monthly basis. And therefore, as we are unable to receive financial results of PBAG for the current quarter, the same stock been accounted for in our consolidated results in this quarter and will be accounted for on a 6-monthly basis after receipt.

Now I wanted to take note of this that it is really borne out of a compulsion. But on a full year basis, you will still see the results of PBAG actually accounted for. So, no impact on a full year basis. However, there will be a quarterly skew. For the quarters ending June and December, we will not be able to consolidate the numbers of PBAG. But for the quarters of September and March, we will have consolidated their six monthly numbers into our quarterly results.

The second piece I want to talk about – we didn't had a chance to speak ever since we announced it was on the buyback that we announced last month. We opened that up from 4th of July onwards, and I am sure you have gone through our public announcement, which essentially lays down the contours of that program. I am not going to go through the detailing of that, but we would be happy to take any questions, specific questions that you might have on it during our Q&A session.

Though what I would like to do is to reiterate that our business remains very strongly focused on investing sufficiently for competitive growth. And to any questions that might have come up sporadically, we have the fullest confidence in our cash-generating ability and strong balance sheet position to enable us to retain our strong position and importantly, provide the fuel for ongoing investments and opportunities. So that is the context in which we went ahead and made the announcement.

So let me then summarize by saying that we have delivered a resilient performance, stable revenues in a constraining environment and margin expansion through very dynamic management of the business performance. As we look ahead, while some of the macroeconomic challenges continue to persist, I think we are a lot more encouraged by the prospect of recovering volumes as supplies improve through each month of the current quarter. Very decisive actions have been taken internally. And whilst it might have taken some time, we believe that it positions our business very well for the longer term.

With this, let me hand the session over back to you, Michelle, to open it up for Q&A.

Moderator: We will now begin the question and answer session. The first question is from the line of Binay Singh from Morgan Stanley. Please go ahead.

Binay Singh: Thanks for the very comprehensive information on Bajaj Auto. My first question is on the margin side. In the previous call, we had sort of guided for margin pressure in Q1, and we saw some of that in the quarter. Now from here on, how do you look at the margins going ahead because on one side, domestic, which we perceive as low-margin business will pick up, we will also have some commodity tailwinds. But on the other side, the high-margin export business could be slowing down. So could you comment a little bit about margins going there? That is the first question.

Dinesh Thapar: Thanks Binay for your question. This is Dinesh. Let me take that. I did make a mention there are two upsides that we are potentially looking at. One of course the commodity situation as it currently stands looks a lot more comfortable then where we might have been a few months back right. The metal complex has cooled off and we are hoping that those benefit start to translate into the current quarter as well and that therefore provides some cushion. I think the other is the direction of the rupee at the moment and that has been a key enabler for us to have delivered the margin improvement in the last quarter even as pricing did not entirely cover for the material cost, but I think now with cooling commodity cost and prospect of a better dollar realization I think that should hint some amount of profitability. You are absolutely right that as supplies improve and the lower margin domestic business starts to come back, there could be some challenges on the mix and while the mix have been the contributor in the past that could be a bit of challenge as we look forward but I think, on balance, the rupee depreciation and the commodity context does offer some amount of comfort on the margin front. So, I think clearly slightly better off compared to where we might have spoken in the first month of the last quarter.

Binay Singh: No, that is very clear. Thanks, Dinesh. And the second one is on the domestic 3-wheeler side. Just 2 questions; one is that, could you talk a little bit about what kind of run rate could we see now that the supply chain issues are resolving? And secondly, in Delhi, where you are sort of meeting with vendors and customers, what is the total cost of ownership of EV and CNG are looking like in your sample set? Are electrical better on total cost of ownership versus CNG in the Delhi experience?

Rakesh Sharma: Hi Binay. This is Rakesh here. Overall, the 3-wheeler industry has not recovered to FY20 levels. We think that it is still at about 50% level. The reason for it to not go back to 100% is largely because there are some markets, like Bangalore, where work from home still continues. The movement demand has not come back to FY20 levels. Also the availability of the three-wheeler drivers has come down. As a result of which, the tendency to invest in a new asset reduces. And that is now on account of the higher fuel cost over the last couple of years. So these 2 reasons has caused recovery in the three-wheeler business to be much lower than what we are experiencing in the motorcycle business. In this context, happily, our market share is growing quite well on the back of the expanding network of CNG. And so therefore, once the supply chain has resumed, we will initially see a surge because we will be replenishing stock. But then after that, we should get back to our original level, which will be between 20,000 to 25,000 units per month. And which would give us a very, very good market share because the market itself would be good as contracted.

In terms of the operating economics electric 3-wheelers, depending on which city you take, but if I just take Delhi, which has got the lowest fuel cost and the lowest electricity cost, if I use that as a comparison because these comparisons can differ based on the city, then we find that the electric 3-wheeler is now almost at par with CNG if not slightly less because the CNG costs have also increased in the recent past. It is at 50% to 75% levels of diesel.

Binay Singh: Great. Thanks Rakesh. Thanks.

Moderator: Thank you. The next question is from the line of Raghunandhan NL from Emkay Global. Please go ahead.

Raghunandhan NL: A couple of queries. Firstly, how do you see the outlook for the domestic 2-wheeler market this year? And given the low base, what is your sense on the urban and rural demand? Recent uneven spread of rainfall – is it leading to any concern on the rural demand, especially in the North and East regions? And my second question is a clarification on the raw material or the commodity cost impact. For Q1, the earlier expectation was the hit could be up to 300, 350 basis points. Just if you can quantify how much was the hit in the quarter given that there was a correction in the months of May and June in commodity prices? And also for Q2, how much benefit can we expect from the fall of commodity prices? Thank you Sir.

Rakesh Sharma: So, let me take the first part of your question which was about demand for motorcycles and domestic going forward. And then Dinesh can come in on the commodity cost side. The outlook for retail demand in our opinion, is improving in motorcycles. You see there is no point doing a simplistic comparison, like I said in my opening remarks, because the last year quarter 1 was very bad, and the growth rates are looking quite astronomical. But if I take a 5-year sort of ratio and sanitize the base effect, then what you can see is the industry is still in the minus 3% to minus 5% growth region, if let us say, we had a normal quarter 1 last year. But obviously, it is declining. So that has not good news. But if you look at the industry performance, post Diwali of last year, we have been calling this point out, it was like minus 15%, minus 17%. And again, in quarter 4, it was also minus 15 percentage points. See, I am only going by the retail patterns based on VAHAN data. I don't see much merit in looking at billing numbers put out by the companies because channel stocks have been flexing quite a bit. So, to understand demand patterns, it is better to base oneself on the VAHAN data, which is covering almost 80%, 85% of the country and is the most reliable data. So, on that basis, the minus 15% decline has now come down to minus 3%, minus 4%. Going forward, our view is that this should improve to, let us say a growth of 0% to 5%. In quarter 1, what we have seen, even though demand were bolstered by the marriages in the

North India, we find that urban and semi-urban areas have grown much better than rural areas. But maybe as the monsoon rolls out and people experience the monsoons, the cost confidence will come and we will see the rural sector also performing. We have seen some of our large competitors pull out scheme, which is a bit unusual because July is not a month when OEs put out cash discounts. But for entry-level models, they have put out schemes. So, we did not need to do that because, as you know, we will, in any case, having a supply problem. So therefore, one hopefully, with the monsoon pattern emerging, rural shocks would come back. We have also seen that the cash sales are slower, the finance is much better. And therefore, the penetration of finance companies is most welcome. So that has where I would put it. I would say that even growth across rural and urban in the coming 6 months in the territory of, let us say, 0% to 5%, I would still say that the growth will be better in the 125cc-plus segment than in the 100cc segment.

Dinesh Thapar: Thanks, Rakesh. Raghu, to your question on material costs. So, your question was fundamentally what was the cost and price in this quarter? So, the costs eventually came in at a little under 3% and pricing was in the whereabouts of 2%. And that has the reason why in my commentary that we recovered about 2/3 of the material cost inflation through pricing. In terms of the outlook for the next quarter, essentially, what is happening is, I did make a mention right now from my commentary that we are seeing a softening on the metals complex very clearly. But there is some inflation that will continue, I think the inflation that we continue to see is still on the energy-related complex so for example, in areas like polypropylene or synthetic rubber and in nobel metals as well. So, there is some inflation on those lines, of course, and that has impacted. The piece that is happening on energy is also impacting conversion costs to that extent. So, I think that is where the inflation is. Our sense is that there are many moving parts at this point in time, in fact, as recent as yesterday with some estimates coming in. But our estimation is that material cost for the quarter should be in the ballpark of between 1% - 1.5% at this point in time.

Raghunandhan NL: Thank you. That was very helpful so 1% to 1.5% lower Q-o-Q correct Sir?

Dinesh Thapar: I am talking about 1.5% as we say, of revenue in the course of the coming quarter.

Rakesh Sharma: Yes, Q-o-Q, that is right.

Dinesh Thapar: So the corresponding number of what I just mentioned of under 3% will be more like 1%, 1.5% for the quarter.

Raghunandhan NL: Got it Sir. That was useful. That is all from my side.

Moderator: Thank you. The next question is from the line of Aditya Jhawar from Investec. Please go ahead.

Aditya Jhawar: Thanks a lot for the opportunity, Sir. I have a couple of questions. First is on our EV volumes. So how is the line of sight of ramping up EV volumes now that we are adding capacity of 0.5 million. Our ramp-up has been slightly slower as compared to peers. So, is there a specific issue on the availability in the supply chain or are there any product development program issues that you are facing with vendors? And if yes, what is the expected resolution timeline?

Rakesh Sharma: Aditya, I must point out one thing, that every call I say that our objective in this phase are not volumetric. And I am surprised that and I am relatively speaking, if I was an analyst, I will be looking and critically examining how the company's capability is shaping up. The more I find is the way that the analysts are so crude onto what volume one is selling which is a very short-term approach, if I might say so. But having said that, I would urge you guys to look at critically. I want to deal with this question a little bit comprehensively so that, hopefully, next time, our engagement is a little bit more holistic than this.

Our volume to get that out of the way first, we have 3,000 units, like I said, in quarter 4 now 6,000 plus in quarter 1 and hopefully, we will double again in quarter 2. And this is on the basis of presence in 27 cities, whereas we have got about 100 cities in our line of sight. At this stage, our objective is really not chasing market share or volume. Our objective is to build capabilities, which is what I have been talking to you about. Now let me explain to you why this whole thing seems a bit longer. There are 2 ways of approaching this business. And I am not saying or trying to pass a judgment here because we ourselves adopted the first approach in 2020. And what is the first approach? The first approach is to get the aggregate off the shelf from anywhere in the world, clamp them together and put out a product. I would say that even in 2019 and 2020, it was not as if this went shopping, our styling was at home. But under the hood, there were many components which we just broadened and integrated them into our design style and frame, etc. So even then, we had a lot of in-house stuff. We believe that the key to winning this game is to have deep and fundamental design manufacturing capabilities, which we will then flow out to a vendor system. It is a very convenient path to bring in all the components and put them together. And when you do that, you are self-imposing constraints because then design is not in your hands because then you want to get the styling from overseas because wherever you are getting the component because the components are dictating the design language and the customer first look at design and styling. So we want to retain that control. Obviously, I am saying that there are many components like battery cells, obviously, we cannot manufacture them. But there are many components, which we have to in-design and that are what we are focusing on. And that is the fundamental reason why the ramp-up is slow. We can put out 10,000 Chetaks tomorrow if we just buy the aggregate off the shelf. But that would be a rollercoaster ride. And I do not think that would put us in a good position to win in the medium term. And this is the reason why the ramp-up is slow because we have to develop the vendor system based on our in-house design components. And we are taking our time over it. This also helps tremendously in managing quality assurance. And anything can go wrong, it is a new type of a vehicle. But by controlling the component development at our in-house we are minimizing the chances of something untoward happening in this category and compromising our brand. So this is what happens inside the company, which then leads to some of the more visible stuff like volumes and ramp up.

Aditya Jhawar: Thanks a lot, Rakesh, for the elaborate answer. My second question is on the export market. So, this could be a very interesting year where we could see that LATAM and ASEAN market performing better because of better availability of semiconductors. But at the same time, if you can highlight that on the ground, how is the situation in Nigeria? How is the response to the higher prices? And how is the situation or dollar availability? Is there a better visibility on the next couple of months down the line? And is there any postponement of buying because of potential ban in the Nigerian market? And overall, just to conclude, how should we look at FY 2023 export number, putting all this into the context?

Rakesh Sharma: It is a very good question, Aditya. And you are right, there is stability in LATAM. The sports segment is growing, and we have for the last 2-3 quarters, having tremendous success with Dominar and Pulsar – so that has LATAM. We are very happy that a very key market like Philippines, which is one of our top 5, 6 markets has now come back and the effect of pandemic is receding over there and month-on-month sales are building up very nicely. We are hoping that countries are much smaller, Malaysia and all, now will come back. We are hoping that Bangladesh will soon be out of its trouble and Nepal; we do not expect Sri Lanka to come out. But as you know, exports to Sri Lanka have stopped 18 months back, right? So, in this all the protests, which has just happened over there, it has really not worsened the situation the exports to Sri Lanka. I think it was zero even in the last quarter of the financial year, except for some police orders, etc. So, I would say that, yes, LATAM and South Asia and Middle East, ASEAN, Asia should largely be on track and see steady performance. Africa is where the issue is. Now if we drop the retail price and demand over the last, let us say, 16 quarters, okay? You will see that largely on account of not just FOB increases, there have been some FOB increases. But largely in account of the valuation of the naira in Nigeria I am picking up Nigeria, in which is our largest market, as you know, in Africa, largely because of the devaluation, the retail price in Nigeria has gone 2 to 3x over this long period. And at the same time, demand has also increased. So, my own thinking is that the more important thing is the volatility and the availability of dollars. The devaluation which has occurred over the last, let us say, 2 years, has been a steady devaluation. What disrupts the market is the sudden up and down. As that settles down, I see that the industry is so big and so deep and so fundamental to Nigeria and as well as to other countries in Africa, that demand will come. People will digest the higher retail prices and they will start charging higher ticket price. You see if you look at the options, the other option for intra-city mobility is used car. Used cars give the fuel efficiency of 5 to 7 kilometers per liter. And the motorcycles, even though they have got 4 people on them, the motorcycle gives us a fuel efficiency of 50 to 60 kilometers per liter. The vulnerability of the Okara, it is not just happen since as the market has increased to such a big extent. It is because it is a great source of employment, because there is a lot of demand for mobility and the motorcycle offers the most effective way of transportation and also going into the narrow street of the areas where which are densely populated. But this volatility and that is coming on the back of this sharp increase in dollar, it shakes the market. Now over the last 15 years, which we have been in operation, we have seen that when this happens, there are 2, 3 months when things go topsy-turvy. And after that, the equilibrium returns. Even if it settles down at a higher level than it did, it gets digested and demand sort of comes back. So, on that account, and this includes this availability of dollars, etc. On that account, I see that indeed, we will face some kind of turmoil in the immediate term this month, next month, etc in this quarter. And going forward, I think things will settle down and we will actually benefit because in tough times, people gravitate towards the most trusted brand. It is precisely in this period of difficulty of devaluation, our the retail price increases in the last, like I said, 8 quarters or so, our market share has increased from 40% to 59%. We have like 60% of Nigerian market with a tremendous supporting network of service and dealer service workshops and dealers. So I think yes, immediate term turmoil. And you also asked about the recent announcement, which you guys have media has picked up yesterday. But since the last 7, 8 days, it has been reported in the Nigerian press. There has been talk in the government circles about banning motorcycles. On account of motorcycles being used for terrorist activity in some parts of Nigeria now again, I want to tell you that we are a little bit sort of battle scarred and quite veteran of these things over the last decade or so. We have faced bans in Iraq. We have faced bans in Sri Lanka, in Philippines and Afghanistan, in Egypt, in Argentina and Nigeria also previously, 250cc is getting banned in Philippines. So these things come and these things go. Currently, there has been no notification. We have been in touch with people in Nigeria, including our high commission over there and there have been no notification, but we are watching out for it. I just want to mention that there are over 3 million motorcycle taxi drivers across Nigeria. There ferry about 40 million people every day. The industry employs 6 million to 9 million, I do not know, this is just a guesstimate, it is a very large interest industry if you include mechanics, etc. So an outright ban across Nigeria of motorcycle is it is a huge, huge challenge for whoever does it, but we will see how it unfolds. And even if there are restrictions, our experience is with these restrictions come, they make a point because the government is probably wanting to make a point about terrorism. And it is not as entire Nigeria is ridden with terrorism. Our teams are going there and coming back and one has to have the nominal care, but it is not as it is such an unsafe country. And even if the government is trying to make a point, they will make the point, and we expect normal season return.

Aditya Jhawar: Thanks a lot Rakesh all the best.

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

Kapil Singh: Good morning Sir. Sir, so on the balance, when you put together all the information on the export markets, what kind of growth are you looking at for this year?

Rakesh Sharma: So I think like I said, definitely, quarter 2 might be a little bit tough. We have to see largely the dollar availability thing in Africa, like I mentioned. That part in Africa, by the way, is about 50% to 55% of our total business. So that will definitely put some brakes on growth. But we had planned for about 10% growth depending on how this goes. We should be getting back at least in the exact 4, 5 months back to that 10% number. But I think because these markets the international markets move almost like a snake in a tunnel, it goes up and down. But directionally, it is sort of pointing northward. Still for us, we have set up an objective for ourselves to double in 5 years' time. And it could take 4 years or it could take 6 years. But we feel that, that is the kind of opportunity which we have. More than 50% of that will come from increasing our market share in existing countries. Almost 25% will come from new geographies like Asian or Brazil and in limited way in Europe. And another quarter will come from the increasing penetration of growth in these territories because a lot of Africa and some of the other markets are still very underpenetrated. So I would say that there is nothing which is suggesting to us that we will not be able to seize the opportunity and continue on that trajectory of doubling in 5 years' time or thereabout. An immediate quarter may go up and down, but we are on that path.

Kapil Singh: Okay. And second question was on the retention of some of these benefits that we have on account of currency and also on account of commodities. If you could just share your experience from the past or what do you think will happen in the future with do you think most of this rupee weakness would be retained by the company or you would need to pass on these benefits mostly to keep the retail price in those markets under control? And similarly, for the commodity benefit that we are seeing in the domestic market. Do you think there is scope to pass on some of the benefits to stimulate demand? Or it is not really going to be material enough for you to make any smartly price varying tactic?

Rakesh Sharma: So in the international market, we have very good leadership position, as you know, in apart from countries in West Africa, like Guinea-Conakry and all that. We are in solid leadership position where we are setting the pricing. And our price setting has always been ahead in the curve of competition and Indian competition, particularly trails behind in many markets, quite substantively from us. So, I think we have said we are not really under pressure to pass on any benefits. So, the exception is where we will use this cleverly for developing new business where we might have to go with the proposition, which is very attractive. I am talking of 3-wheelers in some Middle Eastern countries or in African countries or some high-end motorcycles when we want to upgrade the customer from a 125cc to a 150cc or 250cc. We might do some penetration pricing for some in some pockets. But these are pockets of opportunities. They are not going to decisively impact the overall architecture. But overall, internationally, we are not. In the domestic, we are more led by competition. Though in the sports segment, we are setting the front. And here, I would say that because the domestic market is just recovering, we will be a bit sanguine, we will be a bit cautious. Even in those segments where we are leaders of increasing prices, our overall approach is generally to pass on the cost increases. Now that we are not seeing any cost increases, we will not go and cut prices to try and stimulate demand. And so I do not see any reason to sort of reduce prices and to stimulate demand and we will expect our new product introductions to be attractive. We got a very good portfolio shaping up in Pulsar. There are nothing like a novelty of a new introduction in auto, and that should pull demand. In the mileage segment, which is the 100 to 125cc segment, I must say that we will be very carefully observing what competition is doing. And it is whichever way the competition moves, we will sort of be in the same ballpark.

Dinesh Thapar: Kapil, I just want to clarify, whilst you heard from Rakesh, I think I just want to still make the point saying what we are going to see based on just the most latest view is lower inflation. It is still the direction is still one of inflation. We saw about 3% of thereabouts of sales last quarter, which I just mentioned was going to be in the ballpark as we currently stand, of about 1%-1.5%. So it is still inflation, and it is not a full benefit that needs to be passed on. It is just that we will manage it through other means of mix and rupee depreciation but it does not necessarily require us to take pricing as we might have had to in the previous quarters to really make up for that extent of inflation. But just be conscious that the direction is still inflation, although to a lower extent of what it was in the last quarter.

Kapil Singh: Okay thanks. I think it was creating an impression that it is going down.

Dinesh Thapar: The metals complex is going down. The energy complex is stiff. On balance, it is still leading to inflation of 1%, 1.5%, relative to the 3% of inflation that I mentioned in the last quarter.

Kapil Singh: Thank you.

Moderator: Thank you. The next question is from the line of Pramod Kumar from UBS Securities. Please go ahead.

Pramod Kumar: Rakesh and Dinesh, first, a clarification on the spares, sir, if you can just remind us what are the absolute spares in this year? You said 40% jump and 20% of revenue. So if you can just elaborate a bit more as towards the absolute number?

Dinesh Thapar: Spares. Just for quarter 1, we have 1,035 thereabout, Pramod.

Pramod Kumar: This is domestic and export put together right?

Dinesh Thapar: This is the total sales.

Pramod Kumar: And exports would be what Dinesh for the quarter export including Nepal rupee exports and the dollar export everything put together?

Dinesh Thapar: Are you asking overall exports or export within the spares segment?

Pramod Kumar: No, no, no. Overall exports, sorry, overall exports. And yes, if you can spread the domestic and export spares, that would be great, but yes.

Dinesh Thapar: It is about Rs.4270 Crores.

Pramod Kumar: Okay. Rs.4,270 Crores, right? And my first question or rather the second question is regarding the inter-level portfolio, Rakesh, because I do understand semiconductor shortage affecting you on the premium category. But is there any semiconductor intensity on the CT 100 and Platina and even also 125 because we are on electronic carb even now, right? Is our understanding right, sir?

Rakesh Sharma: About the semiconductor issue, it has affected even the entry level sector. They are even required in three-wheeler but that is now this month onwards actually July onwards, second half of July onwards, that countermeasures have been taken and supplies back on track. But when I tell you about what happened in, say, March, April, May and June, it affected everything except for some products which were exported, which we export to Africa. But it affected entry level by what we did was that we funneled of course, these are different chips. So instead of spreading all the chips across all the models, what we did was we funneled the chips into the higher portfolio or the higher EBITDA portfolio, whether it was KTM, whether it was 3-wheelers or whether it was the 125cc, in the 100 to 125cc cap. In every category of chip, we followed the short supply chips into the higher end. So therefore, in the entry-level segment, which let me say, I define as 100 to 125cc, most of the chips landed to 125cc. So our 125cc did not face any impairment from plan. And as a result of this, we have got our market shares increased from, I think, 21% to 25% or 24% in quarter 1.

Pramod Kumar: Okay. And Rakesh, related to that, we are still on electronic carb for the 100 and 125cc in the domestic market. So when do we plan to transition to fuel injection with the new RDE norms, if you can just share the time line and also the implied implications on cost side because of the switch?

Rakesh Sharma: No, no. I think our product is absolutely steady. We think we have an advantage. And so there is no action underway like that. Any new product introduction on its own merit, we will examine whether it should be triple spark, double spark, single spark fuel injection, e-carb, liquid cool, non-liquid, water cooled, air cooled. The portfolio, as it stands now – it is not in a flux.

Pramod Kumar: So even with the RDE norms, you would not need the fuel injection switchover for the electronic carb?

Rakesh Sharma: Which norm sorry?

Pramod Kumar: The RDE norms, the OBD norms and the upcoming new norms on the emission regulation. I am not talking for the immediate term, say, 1, 2 years out the series of norms which are coming like OBD, for example.

Rakesh Sharma: No, no, no. Our portfolio is not in any plan. We have to do other things. But that is not the issue. There are other issues for in case you are referring to OBD 2A, 2B, there is other stuff which has been done, but not.

Pramod Kumar: Okay. And final one, sir, data point, where would you put your export inventory at the current retail level?

Rakesh Sharma: Export inventory in the international market, it is a very difficult one with the inventory spread out into many countries. We do not really aggregate it and monitor it because this is done market wide. The process is that when orders are being planned, we look at inventory. We look at transit time. The transit time itself has been changing, like Latin American transit time, it used to be 30 days, they went to 90 days, and now they are back to 45 days. So, we look at all those things and then we plan. But we do not sort of aggregate it and say that we do our net inventory to not be able to reliably your question. But I am not we are not seeing this as an issue.

Pramod Kumar: That is great to hear Rakesh. Thanks a lot and best of luck Sir.

Moderator: Thank you. Ladies and gentlemen, due to time constraints, that was the last question for today. I would now like to hand the conference over to Mr. Anand Newar from Bajaj Auto Limited for closing comments.

Anand Newar: Thank you, everyone, for joining the earnings conference call. I see quite a few questions still pending, more than a dozen of them. We can take up calls one after the other after half an hour from now. Thank you so much.

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