"Bajaj Auto Limited
Q3 FY 2024 Results Conference Call"
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Moderator: Ladies and gentlemen, good evening, and welcome to Q3 FY 2024 Results Conference Call of Bajaj Auto Limited. My name is Neerav, and I'll 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 the 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, Neerav. Good evening, everyone, and thank you for joining us for the call today. Welcome to Bajaj Auto's Q3 FY '24 Earnings Conference Call. On today's call, we have with us Mr. Rakesh Sharma, Executive Director; and Mr. Dinesh Thapar, Chief Financial Officer. We will begin our call with the opening remarks from Rakesh on the business and operational performance of the quarter, and Dinesh will take you through our financial highlights. We will then open the forum for the Q&A.

Over to you, sir.

Rakesh Sharma: Thank you, Anand. Good evening, ladies, and gentlemen, and welcome to the earnings call of Q3 FY '24. We deeply appreciate your presence here this evening and let me begin by wishing you all a very happy New Year. Indeed, the new year has commenced on a very good note for Bajaj Auto. Yet again, we have delivered a record financial performance with an all-time high revenue, EBITDA, and PAT; with PAT crossing the INR2,000 crores milestone. This is a hattrick of record setting with each of Q1, Q2 and Q3 results successively establishing record and this is despite a soft international business environment. Dinesh will take you through the financial performance. So let me focus on the business unit performance.

Let's start with the exports business unit. The macroeconomic environment, combined with geopolitical issues remain uncertain. While tight condition remains for dollar availability, broadly the continuing devaluation of emerging market currencies appear to have ceased. However, the economies and customers are still dealing with the impact of high inflation. Overall, our exports stand at about 70% of our peak, which was in FY '22. But there is a 2% improvement sequentially which means Q3 over Q2 shipments. Africa and South Asia are driving the overall recovery as they are still at 50% of peak levels. But LatAm, Philippines and Middle East are now performing above the peaks, that these regions reached in FY '22. In fact, we have had our highest ever retails in Mexico, which is the second largest motorcycle market in LatAm. And overall, market share in LatAm is also at its highest.

The contribution of the Pulsar in the export's portfolio has increased from 19% last year to 28% in Q3. This, combined with a better forex realization has meant that though in Q3, we declined volumes by 4% quarter-on-quarter, our exports revenue actually grew by 10% and EBITDA by even more. We expect the return to peak levels of performance will be a slow and steady process, as we've been saying. But meanwhile, we ensure that exposures of our trading partners, both distributors and dealers are controlled, and our competitive positions are continuously improved.

In Brazil, we broke ground for a new plant in Manaus, where we hope to commence production by end of Q1. The Red Sea imbroglio has caused some delays of about 3 weeks to LatAm and parts of Africa, and we have seen freight rates double for many destinations. December and January shipping availabilities have had some impact, but hopefully, this is not expected to impair performance on a continuous basis unless there is a wild escalation. Alternate routes are already being put in place and ordering levels from our channel partners are being adjusted to take note of longer shipping times.

Coming to domestic motorcycles. Motorcycle industry retails grew by about 11% in quarter 3. Festive sales growth did not see much of a falloff in December this time, and this is a very good sign. So, in the coming months, we expect industry to grow by 8% to 10%. Bajaj Auto retail grew about almost twice that of industry in Q3. Sales were powered by a focus area of the 125cc+ segment, in which we grew at 36% compared to the industry growth of 13%. This segment accounts for 50% of the industry and for Bajaj Auto, it accounts for 70% of our retail. Our market share in this segment is at almost 31%, and we are now in striking distance of segment leadership.

Within this segment, handsome gains in market share were achieved in the 150 to 250cc sports segment where Pulsar rules at about 40% market share and this on the back of a highly successful N-Series launch, where market share is up 8 percentage points to 40% from a 32% level in FY '23. Pulsar recorded an all-time high sale of 400,000 units in the quarter. Our customer engagement program, Pulsarmania, was conducted in 100 cities with over 1 lakh participants and a viewership in millions. It has solidly strengthened our connect with the youth and biking enthusiasts nationwide. Our strategy continues to be to drive profitable growth in the 125cc plus segment based on product differentiation and sharp positioning. We have a nonstop program of rolling out upgrades with superior features to make customer interface connected and more appealing across the entire range at a breath-taking pace over the next few months, culminating the launch of bigger Pulsars.

Leaders generally get disproportionately rewarded by customers for meaningful improvements in successful models. We have witnessed this phenomenon in our NS Series and in the N160. We, therefore, expect to make strong progress based on our new introductions, which are rolling out as we speak, by taking not only the market share beyond the current 40% levels, but also expanding the sports segment itself. Just in this year, the segment share in the industry has moved from 12% to 15%, largely driven by Pulsar interventions. In fact, if you look at the delta growth, which has taken place, 70% of that delta growth has come because of Pulsar.

Coming to commercial vehicles. The 3-wheelers maintains its rock-solid performance with an overall market share of 77% in Q3 and 80% in the passenger segment. In the advancing CNG-based segment, which now accounts for 60% of the industry, our market share is a whopping

85%. Electric 3-wheelers are also progressing very well. We have expanded our footprint to 23 cities now and volumes in December were over 1,800 units. The reception of our product and our proposition of '*Technology Nayi, Bharosa Wahi'* is being received very well. Hence, in every city where we have entered, we have raised to a 50%+ market share within 3 months. Going forward, we are going to aggressively scale the EV presence to about 50 cities in quarter 4 and then further to 200 cities. Capacity has been put in position, and we are also simultaneously upgrading our network infrastructure as well as capability to deliver a better customer experience overall.

Chetak, as mentioned before, supply chain work has improved our capacity and reduced costs, allowing us to open the network, right price the product and drive sales. We are now in 140 cities with 160 odd exclusive sales and service stores covering almost 80% of the high-speed EV market. Consequently, sales have reached the 10,000 mark and retail market share has steadily increased from 4% in FY '23 to 14% in December'24. In the last few days of quarter 3, we expanded the range with a new premium variant equipping Chetak with further style and features. Chetak's proposition of being *Fully Lifeproof* delivered through catchy communication is being received very well. Our objective remains to continuously drive-up volumes month-on-month, and we will now be targeting to breach the 15,000 mark in quarter 4.

Probiking business unit, in the Triumph business, Scrambler 400X received a very good response from both the enthusiasts and the pros. It is now almost 50% of Triumph sales. In December, both models put together retailed about 2,800 units in just 40 cities. In some key cities like Bangalore and others in Kerala, the heartland of midsized classic bikes, we are now already notching up to 20% market share. Our plan is to steadily grow our footprint to over 100 cities by quarter 4 end. But while doing this, we ensure that a superior customer experience is delivered. We will also commence high-quality engagement on the ground with potential and existing customers to bring the Triumph brand to life and demonstrate the richness of entering Triumph world. We commenced exports with over 6,000 bikes to multiple international destinations.

This quarter also saw a superb response to the all-new Gen 3 Dukes in the KTM range. The Gen 3 bikes strongly showcase KTM's READY TO RACE DNA. Our new Husqvarna range has just been launched as we speak in January and is expected to invigorate the brand with the aficionados in particular. Combined, we see this new portfolio increasing sales as well as the quality of sales and strengthening the KTM brand franchise.

Overall, and in summary, our focus will remain unerringly on delivering outstanding outcomes in 5 business areas, which I'd mentioned last time too. These are: number one, to drive growth in 125cc plus segment and build the Pulsar franchise through new launches; number two, drive for 80% market share in 3-wheelers and steadily expand e-autos; number three, ensure steady export recovery with quarter-on-quarter improvement in sales in every market; number four, expand the Chetak business to 15,000 per month based on new launches and good supply chain support; and number five, scale up the Triumph sales in India and overseas and leverage new portfolio in KTM.

With this, let me hand over the call to Dinesh to take you through the financial performance. Thank you very much.

Dinesh Thapar: Thank you, Rakesh. Good evening, everyone, and thank you for taking the time this evening to join us on this call. Let me start by saying that we are rather pleased with our performance, especially given the backdrop of the operating context in which it has been delivered.

The quarter stands out not just as a record quarter, but notably, is our third successive quarter that we have attained new highs in both top line and bottom line; in many ways, a reflection of a business that is on momentum and resilience in the operating model, which has allowed for this delivery, notwithstanding the fact that we've had continued challenges and volatility across our key export markets.

Now before delving into the financial details, as is typical, let me provide you with a brief overview of the operating context that will set a frame of reference against which our financial results were delivered this quarter. On domestic markets, you just heard Rakesh say that they have been reasonably buoyant. Motorcycles saw broad-based double-digit growth year-on-year in the industry across segments; M1, M2, which is 100 and 110cc and the 125cc upwards. So, all segments registering double-digit growth in the quarter on the back of a very good festive season and notably a post festive month of December when demand continued to hold out and register a healthy growth. The trend of the 125cc market growing faster was evident this quarter as well and, in many ways, was contributed and led out by our own performance being well ahead of the industry.

As for the CV industry, it sustained double-digit growth over same time in the previous year. On exports, you've just heard the macroeconomic situation across some of our key markets remains weak and very volatile, which is delaying the recovery that we had hoped for. Although we continue to steadily inch our way back. We're doing our bit to tactically navigate this unpredictable situation through very specific interventions, working very closely with our distributors, trading partners and banking partners so that we can look to salvage as much volume month by month, while, of course, looking to drive and retain our competitiveness across each of our countries.

Very quickly on commodities, the purchase basket was by and large favourable. Commodity costs across the board saw a softening over previous quarters, most notably in the noble metals part of the portfolio. Steel and led were the exceptions where we saw slight inflation starting early in the quarter. But on balance, I'd say that the overall commodity context offered some tailwind that allowed us to dynamically manage the business for competitive growth and margin accretion in tandem.

As for currency, the USD INR situation has remained broadly stable and range-bound through this quarter. We've had a slight positive on export realizations coming in at 83.2 as against 82.6 in the previous quarter and 81.7 for the same time last year.

Now with this operating context as a backdrop, let me reiterate that we believe we had a very good quarter, delivering a strong set of numbers. Our growth has been consistent, it has been competitive, and it has been profitable.

At INR12,114 crores our revenue from operations for the first time has surpassed the INR12,000 crores milestone. It's reached an all-time high, registering a rather robust growth of about 30% year-on-year. And this was underpinned by a 22% healthy volume growth that was aided by a richer mix compared to previous year. We have more domestic commercial vehicles in the mix. We have more Chetak, and really, what has gone out of the way is the lower-priced motorcycle exports. And so that has aided a richer mix. And we've had slight contributions coming in from better currency realization and judicious pricing on a year-on-year basis.

From a quarter-on-quarter perspective, the double-digit revenue growth that you are seeing has almost been led out of volumes. This revenue growth is largely attributed to the outstanding performance of our domestic business, which has been firing on multiple counts for some time now. In its seventh successive quarter of double-digit growth, it has delivered an even stronger show this time around, achieving 50% revenue growth year-on-year. This acceleration on the domestic business on the back of sharp execution and impactful activation during the festive season has cushioned the relatively subdued, although recovering export sales amidst continued challenges in overseas markets. While export volumes were down 4% over previous year, the revenue, which is in the ballpark of about $450 million for the quarter, grew about 10% on better mix and improved dollar realization.

Staying on domestic for a bit; our performance has continued to be broad-based with each segment, domestic motorcycles, our premium bikes business represented by KTM and Triumph, commercial vehicles, and electric 2-wheelers, all of them have grown scale and registered double-digit growth. Our motorcycle business has maintained a solid run growing twice as fast as the market in terms of the entirety of the business and about 6x the rest of the industry in our strategically important segment of the 125cc+Pulsar, as you just heard Rakesh talk, clocked its highest ever quarterly volume of about 400,000 units, with volumes having doubled in just about 2 years.

Commercial vehicles continue to do well and have delivered another quarter where monthly volumes have surpassed the 40,000 units monthly run rate as against a run rate of 30,000 units in the previous year, driven largely by the rising penetration of CNG on the ICE business, where we have a strong portfolio tailwind. Rakesh has already touched upon the success of the E 3-wheelers coming in from the early launch cities where we have already taken leadership positions within a few months of the launch and encouraged by the prospect that it offers for incremental growth, we have advanced our launch plans across many more cities in the coming months of this quarter.

Chetak has started to meaningfully make its impact and presence felt with volumes growing more than 3x year-on-year. It has now crossed over INR1,000 crores in revenue for us in the first 9 months of this year. And to give you a sense of how it is building out, the revenue in this quarter is almost equal to what we have delivered in the 9 months of the previous year. With an exit market share of 14%, a No.3 spot on market share, a new launch in the market, network expansion, impactful activation, we have our eyes set on a bigger ambition and growing further scale in the months ahead.

On Triumph, we delivered about 15,000 units this quarter, give, or take. Of which, about 8,000 was domestic and the rest of it went off to the export markets. And work is currently underway on unlocking capacity at both the back end and front end, and that should enable stepped up volumes in the months starting March, April onwards.

Coming to bottom line, our EBITDA touched a new high of INR2,430 crores this quarter with a strong 37% year-on-year increase and delivering a margin profile of over 20% for the first time after 6 years. Our margin of 20.1%, up 100 basis points over the same time last year, resulting from better realizations, dynamic cost management and operating leverage, given a larger business, which more than absorbed the impact of the competitive investments that we are making in scaling up our electric scooters business.

In sequential terms, our margin improved 30 basis points with price versus cost and operating leverage benefits, more than offsetting the adverse mix, primarily arising from the growing scale of the profit dilutive electric 2-wheelers. So, in many ways, we are now absorbing the impact of the electric 2-wheeler scale-up from the robust margins that we've held out on the ICE business.

As for pricing, there was no real pricing up that was taken in the quarter. In fact, what we did was to plowback a small part of the commodity cost savings into reducing pricing on select models in domestic motorcycles, Chetak, and export markets to reset their relative competitive positioning.

To round it all up, we closed the quarter with profit after tax of over INR2,000 crores for the very first time. And once again, let me emphasize, the results demonstrate the resilience and strength of our operating model, given a unique mix of exports and domestic.

Finally, a quick word as we look ahead. We'd like to sustain the momentum in the domestic business and look to make it about as big as the festive quarter that has just gone by. Going by historical trends, you will note, that's an audacious ask but an aspiration, nonetheless. On exports, the effort remains to steadfastly inch our way up. Of course, the recent events on the Red Sea shipping route, which has led to container freights spiralling out and delays in the last few weeks is starting to add to the existing pressure points on the exports business. That's something for us to manage.

Alongside, we got a range of businesses that are at various stages of expansion with the plans that are well underway: E 3-wheelers, Chetak, Triumph, and we'd like to continue to build these out decisively for greater impact and sustainable growth starting next quarter.

As for commodities, we're starting to see a slight uptick on costs on a few lines, particularly ABS, zinc, polypropylene, copper, rubber to name a few of the lines where the cost lines are starting to inch up and current estimates suggest that we will likely have some level of inflation in the quarter ahead, at least from where we see it at the moment. We'll wait to see how the rest of the quarter plays out, but something for us therefore to dynamically manage so that we can deliver yet another quarter of profitable competitive growth.

Lastly, before concluding a quick word on the recently announced buyback of INR4,000 crores under the tender route that we just announced at INR10,000 per share. This is in line with our dividend distribution policy that we updated a few months back that the Board has approved, which is essentially to include buybacks in addition to dividends as part of the overall pay-out to shareholders.

The growth of the business, the robust cash generation and a strong balance sheet position allows the company to provide for a much larger size this year as we expected to close the year with over INR20,000 crores of surplus cash. Our cash position as at the end of December is almost INR18,500 crores. And FY '24, so far is better than expectation and the profit pool, which is larger in keeping with the stepped-up company performance is allowing for that larger size compared to the last buyback that we had done.

Further to arrive at the offer price, we considered various factors, including the capital market benchmarks, strength on share prices, valuation parameters, performance of the company and more notably, the recent stepped-up performance and the outlook that we discussed to the Board and the impact of the buyback. All these factors were actively considered in the discussions with the board. And this was, of course, underpinned by Bajaj Auto's continued commitment and intention to offer a very healthy return to its shareholders.

As you might be aware, given that the size of the buyback, in excess of 10% of the paid-up share capital and free reserves, it requires shareholders' approval. The postal ballot for this is currently underway and will close by mid-Feb. And therefore, the next steps on the buyback will therefore play out in the month, all the way through to mid-March.

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

Anand Newar: Thanks, Dinesh. Neerav, with this, we can open the forum for the Q&A.

Moderator: Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question, may press * 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 Chandramouli from Goldman Sachs. Please go ahead.

Chandramouli: Hi, good evening and thank you for taking my question. My first question is on the electric 2-wheeler product line. Nice to see the market share pick up there. So just wanted to understand what are some of the key factors that have helped the market share, improvement there over the past few months? And also going forward, if you could also help us with understanding what the product pipeline is looking like for the next 12 months?

Rakesh Sharma: The key factors which are driving the growth of Chetak is, number one, of course, the widening footprint. Once the supply chain issues get sorted out, 2 things will have happen. One is assurance of supply, and the second is to right price the product. We've done both these –and with the network now going to almost 160 cities, we have got a wider geography on which to play. Second is that Chetak has become competitive, in the sense that, it is now at almost equivalent pricing to key competitors and it's getting a whole lot of traction. We are going to continue both these.

Now, the third factor, which is going to come in play is the new variant, which we have introduced very, very recently. What we were picking up from customers that while the customers are really liking the classic design, the ergonomics of the scooter and some features like very nice tail lamp. One constant issue was around certain connectivity features. The new Chetak combined with its Tec Pac, which further elevates the performance, plus this gap as well. So, besides the metal body, the classic and elegant styling, various features, standout design, the performance, particularly in terms of top speed has improved, there is a TFT display, very elegant TFT display and offering a lot of connectivity features. And our very initial sort of feedback in the last 2, 3 weeks is that it is being very well appreciated.

So, we have 2 versions now, Urbane & premium, they are going to drive sales. The network exercise will continue. By early Q1 of next year, we will expand our range with one more product offering, which I think will further boost our sales and market share growth in 3, 4 months' time.

Chandramouli: Got it. That's helpful. And if you could just clarify the export revenue and the spares revenue for the quarter, please?

Anand Newar: Yes. So, the spares revenue in totality was close to about INR1,300 crores. Then domestic was close to about INR1,000 crores to INR1,050 crores. And exports revenue is close to about $450 million.

Chandramouli: Got it. Thank you very much and all the best.

Moderator: Thank you. Next question is from the line of Binay from Morgan Stanley. Please go ahead.

Binay: Congratulations for a very good set of numbers despite the adverse mix that we were seeing. First question is on the electric vehicle side. You talked about 15,000 volumes in Chetak reaching in this quarter. Do you think that will be manageable despite the fact that your competition is offering quite aggressive discounts today.

Rakesh Sharma: I agree that there's a lot of discounting going on. But based on the momentum which we are generating, as things stand now, if I'm not mistaken, our bookings have hit 11,000 units already in January, while this discounting is going on, and there's still a few days to go. So that's why we're saying that. And the expanding network, we're getting into about 200 cities is quite a bit. This year, we have opened stores at the rate of one new store every 2.5 days. And if you have visited some of these stores, they are quite elegant, offering a very nice retail environment to the customer. And now all this is going to be leveraged. So, we feel that, yes, 15,000 bits of a stretch given the circumstances, but certainly something which is within the grasp.

Binay: Certainly, linked to that, I think you made a comment about another launch coming up. So, let's look 2 years out. How many EV 2-wheeler models in the portfolio are you working on, including KTM, Bajaj broadly give us a number -- like how many product offerings will be there 2 to 3 years down the line, just to get a sense on direction.

Rakesh Sharma: See a lot of this depends on how the industry moves at the end. Today, the industry is at 75,000 units per month, right? And just launching more and more products does not actually increase your share at all. You must be able to subsegment this and launch meaningful and relevant products, which are meaningful to that particular subsegment. At 75,000, it is not as if there are too many segments which exist over there.

So, we have some scenarios in our mind. We are working with consultants and as well as there is a very focused product development team and an exercise which is taking place, which is trying to imagine the different scenarios on how the industry will shape up and what kind of subsegment will grow. So, our strategic approach is to identify the nascent segments and launch products which are specific to those segments rather than just keep on launching variants.

We had an issue with the existing Chetak, which we have resolved, which I just described. There's a new one which is coming. And then let us see how the segments go, and then we will position our products over there. So, I can't give you an exact number. I mean, there are many, many products but they will be put into the market based on the maturity of the development.

Binay: And will it be fair to say that even the profitability point will be largely linked to scale up because if you see there is scale, there is supply chain and there's battery prices. The battery prices have started to come down. In fact, I think, there's a lot of excess battery supply today in the industry. So that should be a tailwind in '24. So, will the EV profitability then more rely on scale build-up and then other EV component localization?

Rakesh Sharma: Yes. So, it will be a combination. Like you said, there are certain efficiencies which come with scale. There is a certain forecast of the way cell costs are moving. And so that will add to it.

There is also the opportunity with the portfolio expanding. We can sort of try and improve the blended ASP, but a lot also depends on how competition plays.

We obviously can't take the pricing decisions in isolation. We will have to balance competitive position, growth, and profitability as we go forward. This is a very dynamic balance, which we will have to maintain and of course, then there is this whole factor of the FAME availability and competitive response to how the FAME scenario unfolds, whether it will be maintained, whether it will be reduced or whether it will vanish. So, all these things go into the pot and from that, profitability situation will emerge.

Binay: And second, just on Triumph. Rakesh, you mentioned 20% market share. I'm sorry, I couldn't catch, 20% market share was where, for Triumph?

Rakesh Sharma: So, we are overall in 41 cities. Of this, 10, 11, we have entered I think, only in November, December. We are doing, let's say, 2,800, 3,000 units in a classic 250cc - 500cc industry of about 70,000 units. So, we can say that we have 4%, 5% market share. So, to really understand the performance, look at all those markets where we are there for 3, 4 months now, how are we doing over there?

So, let's take Bangalore. Bangalore is a very important market because as you know its early mover market, people are very open to new introductions, etcetera. Just for Bangalore City, we have reached a 20% market share.

Let's take Kerala. Kerala is a heartland of classic bikes 250cc to 500cc. We are in 2 cities now for 2, 3 months, that is Trivandrum and Kochi. We are somewhere between 15% to 20% market share there.

So, we are looking at market share achievement city by city to understand the reception of the product. And that's what I meant. So, when I gave you those markets, that were retail market share specific to those cities.

Binay: And lastly, order book number on Triumph now.

Rakesh Sharma: No, it's no order book now. That phase is over. Now it is available off-the-shelf. People come in and they buy, and they get delivered. Supply chain has caught up with it. So, including exports, it's available off the shelf.

Binay: And just one last question, Rakesh. I can't resist myself. What will be the big risk in 2024 because your exports are, in a way, coming off on a low base. Indian 2-wheeler market is just starting to turn. So, what do you think will be the big risk to 2024 versus 2023 that we should monitor, downside risk?

Rakesh Sharma: See, frankly speaking, there is exports due to geopolitical and macroeconomic reasons, where we are going through a more difficult scenario, is certainly something which we keep thinking about and which we keep monitoring. And even when it comes to domestic, let's see how the elections behave, however we're not seeing any dark clouds on the horizon at this point of time.

All things are manageable, like Dinesh had said there are some costs which are going up. There is no major dislocation, which is expected. But yes, one very important event to watch is how the elections shape up and what kind of implications are there. So those are the 2 things I would sort of single out at this point of time.

Binay: Thank you.

Moderator: Thank you. Next question is from the line of Gunjan from Bank of America. Please go ahead.

Gunjan: Hi, Thanks Team for taking up my question. I have 2 follow-ups. Firstly, on the export business. You mentioned that LatAm & Middle East are some of the markets which have done very well. Can you talk about how the geographic mix looks like now on the exports in terms of Southeast Asia & Africa. And, if you can talk a little bit more about Nigeria. I mean, has there been any change in the trend on the ground? And if not, what really changes the sentiment back in the market or you see it's going to be slow grind up and can take much longer.

Rakesh Sharma: Approximately the mix is, Africa, which was thrusting at 55% or so is now 45% and Latin America used to be 16%, 17%, it has now crossed 20% and becomes 25%. South Asia is about 15%, -16%. Middle East and North Africa is 9%-10%. So that's the kind of shift. Africa is, like I said, about at 50% of its peak rate. South Asia is at 70% of its peak rate. Latin America is at 107% of its peak rate. And Southeast Asia is also, I think, about 103% of its peak rate. But obviously, you would have totalled up the figure, the ones which are crossing their previous peak rates are adding up to only 35% rate. But still South Asia and Africa, which is down either 50% or 30%. So that is what is dragging it down.

Nigeria, we used to do a good sell 50,000 units per month of Boxers. And now we are doing 20,000, 25,000. So, it's still 45%, 50%. Basically, the issue is the devaluation, which has been very, very sharp if you know. The government there is playing for the longer term, and it's not so easy to correct all these excesses of the past. The street rate and the official rate is narrowing down and they're going down that path. But it's taking time for them to come to grips with that. They don't have that kind of a control where all the fiscal and monetary levers are in full control. So that is why it is taking a lot of time for this thing to get corrected and for people to start to feel better about the economy. But the customer is very resilient and has continued to purchase. Hopefully, the resilience will lead to better acceptance of the rate and normalcy will return. And there is no singular event to watch out for, like you also mentioned. It will be a grind up. It will be slow and steady movement up. I certainly don't think that any one silver bullet or a lightning rod, which will just change the whole thing in Nigeria. It will be a progressive improvement.

Gunjan: And any plans on the exports for the Chetak because I think, given that we already have a fairly good presence in terms of reach in some of the export markets, how are we approaching that as an opportunity?

Rakesh Sharma: We have got a 3-pronged approach or a 3-horizon approach. There are markets we have identified for sort of entry within the next 9 months or so. We have a cluster of countries where we have to prepare a few things because you have to deal with the new telemetry, telecom, data management with the customer, etcetera, all these things. We have a cluster of countries which we think we should enter in by year, let's say, beyond 9 to 18 months, and then there is a horizon 3 which is beyond 18 months.

But for which some of the actions we have to take now, even if we have to enter a country 18 months later. So, we've got these clusters grouped. I think in the new fiscal year, maybe in the first half, we will see some solid entries. We have shipped out some products, but they are more on a sampling and market test basis. But in terms of proper rigorous launch, I would say it will be in the first half of next year.

Gunjan: Okay. Just last question from my side. We keep hearing this CNG bikes over and over again in the press. If you can sort of run us through the thought process and how viable it is? Is it something that we should think about coming through in next 2, 3 years? Any thoughts around that?

Rakesh Sharma: The fundamental thing is that for some inexplicable reason, the fantastic work which has happened on the development of the CNG network across the country has been quite underwritten and under-talked about. From almost next to nothing, we have 4,000 pumps in 335 cities, which are serving industrial, household, and transport sector. This is a very important infrastructure on which we can build things. We have already leveraged this. We've been able to leverage this with our 3-wheeler business. Today 60% of the 3-wheelers are based on CNG. And the reason for that is, that compared to diesel the operating economics for a driver, are extremely beneficial. The payback for our CNG 3-wheeler is 6 to 9 months' time. So, it's a win-win. It's a win for the driver. It's win for the country because it's using the network and its pollutant price is less and it's a win for Bajaj Auto, because we've got 85% market share of CNG.

And I'll tell you one thing, compared to CNG 3-wheeler, the proposition for an electric 3-wheeler is that much diluted. But of course, when you compare electric 3-wheeler to diesel or to petrol, there is a very, very compelling reason to shift, but not so when it comes to CNG. The requirement of a motorcycle to travel longer distances and not be bothered about the charging and all that, are far simpler when it comes to CNG. So, we get the question then why not a CNG motorcycle. And therefore, we are working on a CNG motorcycle. I cannot tell you the precise time. But you will definitely see it in FY '25, not in 2, 3 years' time, but in the next fiscal.

Gunjan: Got it. Thank you.

Moderator: Thank you. Next question is from the line of Amyn from JPMorgan. Please go ahead.

Amyn: Thank you for the opportunity and the detailed commentary. I just want to go back to the exports. Around 6 to 9 months back when you were discussing exports, I think the main issues were inflation, which was impacting demand and obviously, currency, which was impacting supply.

Today, we have the additional issue of the Red Sea. So, looking at it right now, which out of these 3 is the most important one in terms of driving demand.

And b, given that we have this additional issue coming up, should we temper our expectations on near-term export recovery? Or you'd still think that despite this the quarter-on-quarter recovery, which we have been seeing and which you have been talking about is something that is still achievable?

Rakesh Sharma: See, if you mean the near term to be, current month and one-plus-one, if that is your definition of near term, certainly, the Red Sea imbroglio is casting a shadow because there are shipping line interruptions, etcetera. But I'm hoping that it doesn't move into a war zone or something. What happens whenever the shipping cycle gets interrupted; the issue is not just the liner. The issue is that the container locations get imbalanced. And it is not easy to find containers. That takes a little bit time to resolve. This happened in a massive way during COVID. You know that most of the containers stuck in San Francisco and Los Angeles, and there was nothing available in Bangladesh and all that. So, people find the container mismatched over here. To some extent, that is what has happened because suddenly, the shipping times have increased from 3 weeks to 6 weeks for LatAm, let's say. But it is isolated, so it's not as severe as the COVID time.

So therefore, we are hoping that the container availability resolves itself. The other 2 impacts of Red Sea are the shipping duration increasing and the costs going up, right? The freight rate will increase. Both those can be adjusted on pricing and on adjusting ordering patterns to deal with the delays. So, if the conflagration does not widen and become more serious, we should be able to get out of in 2 to 3 months.

But fundamentally, if government gives me a magic wand, I would say, please get me rid of this inflation and the availability of the dollars. The whole process of letters of credit being opened and then after that, they've been confirmed and all that, the whole financial system is in quite a bit of a pressure. That is taking longer than we had expected.

So, we had thought that every quarter will be a 10% improvement. Now we saw that this quarter is only a 2% improvement. Maybe the next quarter will be also thanks to the Red Sea, will be a 2% to 5% improvement. We'll have to see with each month, I cannot give you an exact number now. But it will be in that kind of a zone. So, our thing is that, okay, maybe not 10%, but let's try to improve quarter 4 over quarter 3.

Amyn: Sure. That's helpful. It's good to know that you're still looking at an improvement even if it's a low-end improvement. My second question is just on the profitability. I mean, historically, if you look at the pecking order of different segments, I mean your commentary has indicated in the past that the domestic 2-wheeler business was at the bottom of the pecking order of profitability.

Would it be fair to say that because of the way your mix has changed, and your market share has improved in the 125cc plus category, the domestic 2-wheeler profitability has improved? And is it now equal to that export 2-wheeler? Or would it still lag? Some colour would be helpful.

Rakesh Sharma: Well, our profitability over 2 years, the biggest swing which we have seen is actually in domestic motorcycles. I'm talking of not profitability. I'm talking of the profit, the EBITDA, the absolute EBITDA. The biggest swing which we see, the delta is actually in domestic motorcycles. And that like you said, entirely because of the makeover in the portfolio and the mix change. Compared to overall exports, overall export is still higher. Dinesh, you may like to add.

Dinesh Thapar: Yes. I think to add to what Rakesh has just said. Clearly, if you go to look at the margin improvement on 2 counts. One is, of course, the fact that commodity benefits and operating leverage have really benefited all business lines. So, the rising tide on that has benefited each of the businesses. But clearly, from a mix movement standpoint, domestic motorcycles have clearly gained during this period of time. Exports, your question very simply answered. Exports continues to remain more profitable at this point of time because it been bolstered by improved dollar realizations.

Amyn: Understood. That's helpful. Thank you.

Moderator: Thank you very much. Next question is from the line of Hitesh Goel from CLSA India. Please go ahead.

Hitesh Goel: Sir, my questions have been asked. Thank you.

Moderator: Thank you. We move on to the next participant. Next question is from the line of Kapil Singh from Nomura. Please go ahead.

Kapil Singh: Hi, good evening. On Triumph, I wanted to check what are the volume targets here and the 100 cities that you're trying to reach by Q4, what percentage of the market would they cover?

Rakesh Sharma: These 100 cities would then cover 50%+ of the market for Triumph.

Kapil Singh: And on the volume target, what is the aspiration to reach by end of the year or next year?

Rakesh Sharma: We've not worked out the exact target. Capacity wise, including exports, we are planning to go up to 20,000 and then 30,000 during the course of the year. Then we will see how this rollout goes. Because in the case of Triumph, it is also a host of customer engagement activities, which we feel that we have to start to open up the moment. We have reached a critical mass in about 50, 60 cities so that we can start to make brand also a reason for the customer to start with. Our plan for Triumph is not really driven by volumetric goal on the sales side month-after-month. We right now have a capacity of 10,000, it will be increased to 20,000 and then progressively 30,000 in the first half of the next year. This, of course, also includes exports.

A very important target now for the team is to start to make the Triumph brand very, very real for potential customers for them to experience this very authentic, classic heritage brand through direct engagement. So, we are trying to win these enablers of growth, which is a very nice shopping environment, good product portfolio, right now 2, slowly will be increased to 3 and a great engagement in line with the brand position.

Kapil Singh: Sir, and also on the domestic 2-wheeler market, could you give us an update on the new launch plans? Also, would like you to reflect on the strong success we're seeing in the 125cc segment. Maybe what really has worked in the last 1 or 2 years for us?

And there is more competition coming as well. So how do you think about this segment? And also, the 100cc segment, basically trying to understand whether you're comfortable with the way things are going right now. Because 100cc still forms, almost half of the motorcycle market. So, are you going to look at it more aggressively or not?

Rakesh Sharma: One thing which really work in the 125cc segment is we were very early to spot the rise of the 125cc segment when the BS-VI related costs went up, we knew that the 150cc costs were going up much more because of the ABS, etcetera. And therefore, the combined effect of ABS and BS-VI would increase the prices of 150 and create an opening for 125. So, we have spotted this segment early. This segment has got customers who are wanting to be a pure commuter, slightly elder in age profile to very sporty and youthful customers. Now if you see, we're only one, who straddled the whole spectrum. So, we have got a Pulsar 125 for a person who is purely commuting based, and we got a Pulsar NS125 with upside down fork, LED headlamps, very, best in class power and all these features for the very youthful college-going youngsters. Now this coverage of different subsegments within the 125 segment is about 260,000, 270,000 units now. The coverage of this segment puts us in a very, very good position to be able to continue to drive growth. And that is the reason why we are outstripping the industry growth. I mean if you take us out and like Dinesh said, if you compare rest to the industry with our performance, and we are 6x faster than the rest of the industry. And that is because we've got a Pulsar for each type of customer over there. And that is the campaign we've said, there's Pulsar for every maniac.

And then you've got all these go-to-market issues. So that strategy has really worked out for us. Early movers, sub segmenting and putting a Pulsar, which is very good with brand name, putting a relevant Pulsar for each segment. And nobody has that kind of a spread if you see. I think we've got 7 to 9 models from 125cc to 200cc compared to others, 3 or 4.

Kapil Singh: Yes. And sir, can you also talk about the relaunch plan? And any thoughts on the 100cc segment?

Rakesh Sharma: Yes, we've got plans, is that every month, you will see 2 or 3 upgrades between now and April, May, and we are hoping to present a bigger Pulsar in the first quarter, hopefully of next year. It's a breath-taking pace. It's a non-stop mania as our team is calling it. And nothing like new products and upgrades to excite the upper half of the industry.

In the 100cc segment, the issue is that we are constantly seeking a right balance between the triad of growth and volumes and market share and profitability. We are not wanting to approach this only from the lens of price as we did 3, 4 years back and then we have seen that it is in the red ocean out there, if you just want to go purely on a price basis.

While we have a good play in the 100cc segment through our Platina, which is giving us a 10%, 12% market share in the 100, 110cc segment. But given the fact that the economic drop is improving, and even this segment has emerged from the shadows of COVID. We feel that it is a better strategy to invade the segment from outsider's segment to pull up the people into 125cc. And some of it is happening with the Pulsar. We are looking at programs where we will be able to offer a very appealing product to people who are in 100cc to and migrate them upwards, instead of matching the product and price of a leader.

We want to stay away from that kind of a strategy from being a Me Too, you can see recently some competitors have launched Me Too 100cc they go nowhere. And they're not prepared to get into the red ocean just for volumetric gains. And it may be just 50% in volumetric terms but is much smaller in terms of the profit pool, which it offers. And because it's much smaller in terms of profit pool it offers, we are not ready to bleed to just get some volumetric gains. We will invade this segment from outside the segment, from adjacent to the segment. And you will see as the new fiscal unfolds, our attempt of that.

Kapil Singh: Thank you very much sir. Look forward to that and wish you all the best.

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

Aditya Jhawar: Thanks for the opportunity. Congratulation on scaling up the 2-wheeler volumes. It will be great if you can help us understand that how are we thinking on profitability on E 2-wheelers considering lithium prices have been coming down and with improving scale and PLI benefit, any milestones on profitability on gross margin level and EBITDA, you would like to share.

Dinesh Thapar: I think Rakesh answered this in part earlier. But you're right that we're seeing lithium prices coming off. Also, I think the full effort on the R&D front and on product is starting to show up some savings. So, we are definitely sitting on a better margin profile relative to where we might have been about 6 to 9 months back, right?

Having said that, there is still some amount of work to do before we start to reap the full benefits of the battery cost savings. So that's one piece, which is there. Obviously, with growing volume, we are getting some amount of operating leverage, but you realize that as Bajaj Auto, we don't have an excessive amount sunk into fixed cost this time because we're clearly leveraging the wider organization as far as establishment is concerned. So, it's really on specific facilities that we've put up for Chetak and the E 2-wheelers on which we need to really manage the fixed cost base. But that's not really the highest amount. I think much of the profitability will go behind product, how we play a fuller portfolio and try and drive better ASP, whilst we really reap the benefits of falling lithium prices.

I think the big element on the horizon for us to watch for is what will happen to industry pricing as indeed our own pricing because we will want to remain very competitive given our aspiration. And so, what will happen to industry pricing as FAME gets reset and whichever way it gets reset. We saw what happened in June, when FAME subsidy was paired down and what it led to on pricing. So very mindful of that. We will retain competitiveness, and that could mean that there might be an impact on pricing and therefore, margin. But that's something to be watched for.

In the meantime, the big levers of margin improvement will be, of course, growing scale, deferring fixed cost over larger volume, product benefits coming out, work that is happening on R&D and really benefiting from falling lithium prices on the battery.

Aditya Jhawar: That's helpful, Dinesh. Final question is on PLI certification. Where are we on that? Any timeline that you can share and how many products we plan to get in this fiscal year?

Dinesh Thapar: So PLI certification applications have been made to the testing agency. In our case ARAI is the relevant testing agency. Applications have been made for the electric 2-wheelers and the electric 3-wheelers and they are at fairly advanced stages of engagement with the testing agency for certification.

We are hoping that all going well, it should see the light of the day in the course of the current quarter, but there is a process that we need to follow. And so, one is only hoping that it happens sooner than later. But all applications for both the electric passenger 3-wheeler, the electric cargo 3-wheeler and on Chetak are already in and at the moment with the testing agency.

Aditya Jhawar: Ok. All the best.

Moderator: Thank you very much. Ladies and gentlemen, we will take that as a last question. I will now hand the conference over to Mr. Anand Newar, for closing comments.

Anand Newar: Thank you, everyone. Thank you for joining us for the call. With this, we can take the pending questions that we have, maybe after half an hour from now. Thank you.

Dinesh Thapar: Thank you.

Rakesh Sharma: Thank you, everyone.

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