"Bajaj Auto Limited

Q2 FY2023 Results Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to Q2 FY 2023 Results Conference Call of Bajaj Auto Limited. My name is Yashashri, and I will be your coordinator. As a reminder all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the initial remarks from management. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anand Newar, Head, Investor Relations from Bajaj Auto Limited. Thank you, and over to you, sir.

Anand Newar: Thanks, Yashashri. Good evening, everyone, and welcome to Bajaj Auto's Q2 FY '23 Earnings Conference Call. On today's call, we have with us Mr. Rakesh Sharma, Executive Director; and Mr. Dinesh Thapar, Chief Financial Officer. We will begin our call with opening remarks from Rakesh from the business and operational performance of the quarter and 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 and good evening, ladies and gentlemen. Thank you very, very much for taking the time to join us for the call on a Friday evening. Our results were announced a couple of hours back, and I hope you've had a chance to produce them. We wanted this conversation to be fresh and not stand by Monday hence this late call, but we'll try to close the call by 7:00 p.m. so that you can head out for your weekend.

Let me begin with the highlights of our performance in Quarter 2. Quarter 2 was an outstanding quarter with record breaking top line and bottom-line outcomes. As you know, there have been serious macroeconomic issues overseas and also supply chain challenges, so this performance in Quarter 2 yet again demonstrates the resilience of Bajaj Auto, arising out of our well-diversified portfolio, robust operational management and a strong competitive position in most key segments in India and overseas.

The main story in the quarter was the -- finally, the restoration of ECU supplies to industry normal levels. As you know, our substantive R&D and supply chain effort has been made in the last 5 months to broad-based vendors for critical components and reduce dependencies. This project was completed, resulting in resumption of supplies to now almost 98% levels. There are still some remnant issues in the top-end models and some 3-wheelers, but we will also get resolved within October.

Now coming to the commentary on our main business units, exports. The key issue in Quarter 2 was a dramatic downturn in several overseas markets, which, as you know, are mostly emerging market economies. While the motorcycle industry's pace of growth has slowed down in Q1, but in Q2, there was a dramatic double-digit fall in retail compared to the same period last year. Of course, these signs were visible by end of Q1. The root cause of this downturn has been a sharp appreciation of the US dollar causing two impacts, severe double-digit devaluation in most currencies leading to an increase in retail pricing in these markets.

And secondly, extremely poor availability of the US dollar for trade. The combination of these 2 phenomena resulted in a form of exports. ASEAN strength and the impact was not so severe in LATAM as it was in South Asia, Middle East and mainly Africa.

Now recognizing the imminent fall in retails around April, May, as a prudent measure, we cut our exports to bring distributor stock and their exposure down to manageable levels. We have taken the bigger hit on a YTD basis, which is H1, our shipments and retail are now well matched, which means that in the last couple of months, our shipments have been lower than what retails we have been experiencing. Now having said this, we are seeing some recovery in retail in both August and September after the low, low point in July.

Hopefully, this will continue and enable us to set up Q3 in exports to be better than Q2. On the positive side, we witnessed a strong show by ASEAN with Philippines industry reviving back to pre-COVID levels and Bajaj Auto registering its highest ever sales in Q2 to emerge as a clear leader in this very important ASEAN market.

Secondly, at a global level, the sports motorcycles brands, Pulsar and Dominar increased their contribution in the portfolio of exports to 21% and the combined market share has also increased beyond 40% level, making us an undisputed leader in the sports category across all the emerging markets of LATAM, ASEAN and Africa, but Africa sports market is small.

Both Pulsar and Dominar offered very good opportunities for Bajaj Auto to grow share, grow category, particularly the 250cc category and thereby deepen brand strength and improve profitability. Thirdly, the rupee realization at almost INR 80 per dollar, which is a 3% improvement sequentially is directly adding to our bottom line.

Coming to domestic motorcycles. With the easing of supply chain constraints, volumes almost doubled sequentially to over 620,000 units in Quarter 2, therefore, building back our inventory across channels ahead of the festive and actually just in time for the festive. We have entered the festive with about 5 weeks of stock, which is quite adequate to ensure the surge in demand during festive days is matched by tops on the ground at every primary and secondary store.

Moreover, and more importantly, by end September, the retail market share has been almost restored to the levels we enjoyed before the supply chain disruption. the motorcycle industry appears to be bottoming out of the negative performance zone. On a retail basis, motorcycles declined by about 5% in FY '22 and grew by 50% in Q1, but that is because of the base effect of COVID impacted Q1 in FY '22.

In Q2, while the retail still shows a decline of 6% for the industry, recent most retail data appears to suggest that we can expect growth albeit small single-digit growth in the industry, aided by the festive season. The overall industry performance is the consequence of 2 very distinct and opposite trends. While the entry commuter, which is largely the cheaper 100cc bikes is declining quite sharply and particularly in the rural areas, the 125cc plus segment is growing.

Consequently, since FY '20, the industry has reshaped itself towards this segment, and it now constitutes almost 50% of the industry, while it was just about 42%, 43% only 2 years ago and 40% 3 years ago. For Bajaj Auto, 60% of our portfolio as compared to industry at 50% - 60% of our portfolio in Q2 was 125cc plus segment as compared to only 46% in FY '20. This is a key driver for improved profitability and a superior competitive position.

We have made 2 important launches in quarter 2, the all Black dual-channel ABS Pulsar N160 and the CT 125 as well as a refresh of the Pulsar 125 being rolled out as we speak. We are delighted with the acceptance of the new Pulsar platform. While it commenced last year with the launch of the 250, the more mass appealing N160 was flowed down across the country to an outstanding reception clearly demonstrating a gain of market share, particularly in those states where we have launched it early.

Combined with better supply, this has already helped us gain substantial market share across the country now. This platform - the new Pulsar platform will be expanded further in the coming quarters, thus, completely and substantively upgrading the Pulsar portfolio. The CT 125 was also launched as an entry 125cc bike with the differentiated proposition of durability - 'Har Sadak pe Kadak'. Retail of CT 125 are showing weak-on-weak growth too, but it is early days. We are happy with the initial results.

We will continue to direct our innovation energy to the 125cc plus segment, which appears to be enjoying tailwinds and growing faster than the overall industry. And this will help us improve both the profitability profile of the domestic motorcycle business unit as well as the market share.

A quick comment on the festive season underway. It has been a bit up and down so far. But overall, we expect the industry to come through with single-digit growth, and we expect to be in line with the industry. But ahead of it, in the 125cc plus segment.

Coming to commercial vehicles. As with motorcycle, we saw a ramp-up in volumes on the back of improved supply with our dealer inventory being restored back to previous levels. We continue to see signs of recovery as the industry is now back to 54% levels of pre-COVID era. Against this backdrop, by retail have improved to 65% of pre-COVID levels in Q2. With this, our market share is a solid all-time high of 72%.

One of the biggest catalysts to this outstanding performance is the continuous rollout of the CNG network by the government and our company's ability to capitalize on this opportunity. The industry has reached its highest-ever CNG penetration levels to 67% with our market share in CNG-based products, which is almost 80% in Q2. We expect industry to keep recovering though at a slow pace as it will be driven by the ability of drivers to improve earnings through better ticket prices to mitigate the higher TCOs, which will then make new purchase attractive.

Trials of the electric 3-wheelers are continuing in different markets. The rate of adoption of EV autos has been very slow, as the commercial segment has very stringent requirements of performance. Our extensive trials are going to ensure a robust product proposition which hopefully will accelerate the adoption of EV autos when they are launched in the next few months.

Our electric scooter Chetak volumes grew by over 50% from about 6,200 units in Q1 to almost 10,000 units in Q2. We have gradually increased our presence in our 40 cities across the country. We are also working towards expanding the EV portfolio to cover different emerging segments and geographies. Supply chain visibility is much better, and we expect Q3 to be a lot better than Q2. Going forward, at a company level, we expect to hold this performance, and we have a few initiatives in play, and we will be actively seeking to actually improve on it.

Now let me hand over the call to our CFO, Dinesh Thapar for his commentary.

Dinesh Thapar: Thank you, Rakesh. Good evening to all of you and thank you for joining us on a Friday evening at this half of this call. At the outset, let me emphasize that in the 2 quarters that I've been with the business, it's proven 1 thing about Bajaj Auto, and that's -- this company has a well-balanced and diversified business and arguably better than many others, which has allowed us to absorb shocks and still deliver a resilient performance in the aggregate through these challenging times.

Now the quarter in discussion really has had 2 more events. I think first, we had supplies from the new vendor. You recall that we've spoken about this when we were talking in July that we had developed new supply sources, and that's coming very handy for the business. That kicked in and allowed us to really build channel inventory that's significantly depleted and hit a low in the month of May. And so therefore, ahead of festive season, we think we are well placed with the channel inventory that's built back to levels that Rakesh just spoken to you about.

And secondly, I think the other development, which is more in the context of our financial results was a very weak macroeconomic environment in our export geographies that have dampened our export volumes. And then both events have had a material impact on our results, what was very reassuring is that the outcome has turned out to be a record quarter for Bajaj Auto with all-time high top line and bottom line.

Now, talking about the specifics of our financials. Our top line crossed the very important milestone of INR 10,000 crores in a quarter for the first time. This is the very first time Bajaj Auto has reported that number. Our revenue from operations came in at INR 10,203 crores, which is up 16% year-on-year and 27% over the previous quarter. This was primarily led by improved volumes, which was up 23% sequentially on the back of improved supplies from the new vendor source that has come in and also was aided by very judicious pricing that we've taken, particularly at the start of the last quarter and better dollar realizations as the quarter passed by.

Our EBITDA came in at a very strong INR 1,759 crores, up 26% year-on-year and 36% over previous quarter. Our operating margins expanded about 100 bps sequentially. And I'd say it's tad better than our initial calculations. When we spoke last quarter, we had anticipated material cost to inflate at anywhere between 1%, 1.5%, primarily led by imports, which were indexed to the energy basket. You will recall I had made this comment and said that when you look at our commodities on our input cost, you've got to look at the prism of 2 real baskets, the metals complex and the energy complex. And of course, in that context, as I mentioned, that we were likely to see some inflation in the current quarter.

What we also said was in keeping with the trend of pricing that in recent quarters, we had hoped to cover about two-third of that cost inflation through pricing. Now that is how we had anticipated it as we got into the quarter. But looking back as the quarter has progressed, we've seen further signs of metals, particularly the aluminum and little bit of alloys, which has softened even further and some of the other material groups have come off as well.

This essentially has meant that material inflation in actual came in at the lower band of the range that we had put out. And the impact of this was almost entirely neutralized by the pricing that we have taken out early in the quarter. So, the 2 were in essence, balanced out as you look at the margin numbers. And therefore, with price versus cost being neutral and operating leverage on the back of higher revenues making up for a little bit of the adverse mix that we saw, the improved dollar realization has meant that, that flew straight into margins.

Our foreign exchange realization for the quarter came in at 79.8 versus 77.4 in the previous quarter and 74.6 in the same period last year. On balance sheet and because we are publishing a 6-month balance sheet as required by regulation, we continue to maintain a very strong track record of cash generation. We've added about INR 2,500 crores of cash from operations in the first half of this year. And at the end of the quarter, our surplus cash stood at about INR 15,500 crores. And this most notably was after paying out about INR 7,000 crores by way of dividends and buyback.

I'd like to reiterate that we think our balance sheet continues to remain very healthy and offers us enough headroom and flexibility to invest sufficiently in capabilities and growth opportunities looking ahead.

Now as we look up to the next quarter, the focus will clearly be to build volume-led revenue momentum with a very strong emphasis on market share gains and really underpinned by the work that we continue to do to drive our supply security. That's an agenda, which has made very short footed and steady progress. And there's still some amount of work to be done, but we are making very, very definitive progress on that count.

In particular, what we're also doing is to watch very closely with developments in some of our large export markets. And while each of us may have views on how that will pan out and how the macroeconomic situation will unfold, our intent is to stay very focused on taking decisive actions to drive our business and our competitiveness across these geographies.

So, on the domestic front, the priority very clearly remains strong execution and impactful activation through the rest of season now that we have our dealerships well stock up.

On margins, the softening commodity costs came progressively through the last quarter and as we currently see it, particularly a further easing of the metals complex presents a welcome respite after many quarters of inflation and should be bit of a tailwind as we look ahead. The rupee continues to depreciate and is now over INR 82 to a dollar and this should really help the case for better realizations and margins.

Before we move into Q&A, let me update you once again on our disclosure relating to our consolidated financials, and I'll talk very briefly about the buyback as well. So, if you recall in the last quarter, I had made a specific point on our consolidated financial statements and the line that we consolidate, which is share of profit from our associates and joint ventures. That's the 1 line I'd like to draw your attention to.

I had mentioned that -- Pierer Bajaj or PBAG which is where we have an indirect holding through our wholly owned subsidiary, BAIHBV was not able to share its quarterly financials with us, and they were only to be sharing it on a six monthly basis, given that they were covered by a regulatory market context, which allows only for publication of financial results at a half yearly rest and are not quarterly rest.

As a result of which, when we consolidate our results the last quarter, we did not have any profit that we built into our consolidated financial statements for PBAG. And, therefore, that line was a zero, if you look back to it in the first quarter. This quarter having received the published financials from PBAG because PMAG or the listed entity out there was able to publish it. We have now consolidated 6 months of profit into this quarter's financials. So, when you look at that line on share of profit from associates and joint ventures, you will fundamentally see a number which represents 6 months of the consolidated profit of that entity.

On a full year basis, this will not have any impact. But on a quarterly basis, there are likely to be skewed. So just to make the point once again and get this out of the way. In the first quarter, which is quarter ending June, and the quarter ending December, we will not have financial results from that entity and therefore, will not be consolidating it. For the quarter ending September and the quarter ending March, because we will have 6 monthly results from that entity. We will be consolidating 6 months into those respective quarters.

On buyback, we closed this earlier this week on 10th of October, and well ahead of the 6 months stipulated time period that we had. So, we took essentially 3 months in completing it. We have mopped up over 64 lakh shares during this period of time. The initial number that was envisaged was 54 lakhs. We've been able to mop up 64 lakhs in the 3 months that we've been in a market which is fundamentally covering the full INR 2,500 crores that we have to set aside for the buyback.

We've also issued our post buyback public announcement in today's newspapers. It appears in the Financial Express, the Jansatta and the Loksatta, and I'm sure many of you would have already cited that. The announcement laid down the contours of the executed buyback along with the revised capital structure.

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

Anand Newar: Yes, Yashashri. We can open the Q&A.

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

Amyn Pirani: Yes. Hi, good evening. Thanks for the opportunity. And congratulations on a good set of numbers. My question was on the fact that you mentioned that both commodities and currency will potentially be a tailwind for you. And given that now the focus will be on volume growth and market share, how should we think about you wanting to invest some of these tailwinds back into the business to grow volume and market share and hence, the revenue and the margin and the growth, how should it pan out?

Rakesh Sharma: Thanks, Amyn. The thrust for volume and market share continues. I'm not saying it is completely delinked from whatever opportunities are getting created by commodities and exchange realization. But it is not our automatic choice to pass these on. We will be very selective. We have a very good understanding of those product market segments where we believe that we need to deploy pricing as a strategy or promotions as a strategy, and we will use these opportunities over there.

But there are many segments where we think we need to attack these through product solutions, through distribution solutions, etc. That is an exercise which continues irrespective of whether these tailwinds are there or not there because we are thrusting forward to continuously expand our footprint. But yes, we know that we have this kind of leeway and if a product market segment requires it, then we will not hesitate to use some of these.

Amyn Pirani: Sure. Thanks. And if I can just squeeze in a book-keeping question. Your other operating income was quite strong in this quarter despite the fact that export volumes were lower. And I understand that a large part of this is the export incentive. So, if you can help us understand as to what's happening in that number? Is there something that we should take into cognizant?

Dinesh Thapar: Amyn, you're right. So, the benefit is coming out from export incentives. There's a way which is it is accounted for. And so, some of the export incentives that we receive are also sold out or traded. And so, we, therefore, had a better realization on those scripts in the course of the current quarter. So, I think the bump up that you're seeing in the other operational income is coming in on the incentives, but the way it gets accounted for and the way it gets realized is slightly different, and that can be phased off over time.

Amyn Pirani: Okay. Okay. Understood. I'll come back in the queue. Thanks for that.

Moderator: Thank you. We have our next question from the line of Kapil Singh from Nomura. Please go ahead. Mr. Kapil Singh, please proceed with your question.

Kapil Singh: Yes. Thank you very much. Sir, thanks a lot for very detailed commentary. That's quite helpful. I had a couple of questions. So firstly, on the export market. Could you share what is your outlook for the export volumes? And also, what is likely to happen in terms of export pricing? Are you likely to retain those benefits? Because you mentioned that some of the currencies in those countries are also depreciating quite rapidly. So, given your experience of last many years, how do you foresee that?

Rakesh Sharma: Yes. So, Kapil, as I had mentioned that we expect quarter 3 in exports to be better than Quarter 2. While I would not specify a precise number. Because it's very difficult to do so given the circumstances. But why I'm saying that it should be better, other things remaining the same, is because in Q2, we had taken the hit of adjusting the stock in the channel. You see that there is almost 3 months to 4 months of stock in the case of overseas markets, which is either under shipment, on water or in the plants of the distributor.

When there is dramatic fall in retail, there is a sort of a bullwhip effect with cascade right down the supply chain. Because before the distributor knows well a couple of months' worth of previously high retail-oriented stocks hitting in. So, we have to adjust for those. That adjustment is now got completed in Quarter 2. That's why I said that our shipments were lower than the retail which we were expecting in the market.

So now going forward, we expect to go up and down with the markets, which are showing some signs of improvement. Now using price as a means of dealing with the macroeconomic issues is not justified. I mean, if the currency has got devalued by 20%, I cannot do anything about it. Even if I shave off a few percentages from our higher margins because of better realization it's not going to make a difference. The macroeconomic led issues have to be digested over the period of time. As you know, we have been in the game for many years now and even more serious devaluation has been weathered by the company. International business is not for the faint hearted. Argentina, Egypt and all have experienced serious devaluations, and there's a mechanism in the company, which comes into play. But by shaving off the price, we can deal with this massive devaluation, so that's not the way we are going to approach it. But yes, there's an intrinsically – there's a competitive issue or there is some promotion which needs to be done to build awareness, we will not hesitate to do that. So, I don't expect the realizations to be used for reducing prices so that we can offset the devaluation impact in the destination markets.

Kapil Singh: Yes. Thank you very much. And secondly, I wanted to check you mentioned tailwinds on commodities. Could you quantify how much tailwinds are we expecting on the commodity front in some range and price increases that we have taken?

Dinesh Thapar: So, Kapil, I will desist from a quantification of the state only because we are on a cusp of a change. And so, the last time when I did mention that there was inflation, I gave you a sense of it was coming from the energy complex which might have been slightly contrary from what we expected because I thought the view was that people were assuming that the metals complex was softening. But this time around, I'm giving you a sense that what we're seeing is there's a deflation that is likely happening. And even that seems to be happening across the board, led by the metals complex. I think the only exception that we're seeing is really on a few areas like electricals, plastics, polypropylene and maybe rubber as some material groups, which are showing an inflationary trend, but for the most part, the rest of the commodity basket seems to be easing out. I wouldn't put a number to it at the moment only because some of these are still work in progress in terms of how we're seeing the negotiations come through. But the direction of trend, like I said, is one of an easing.

Kapil Singh: Okay. And pricing?

Dinesh Thapar: On pricing, I think at this stage, given the commodity context, I don't think we need to price out to recover cost of that count. But if there are opportunities on pricing, where we can think that there is still a market opportunity in that space, maybe but at the moment, no. No need for us to price out for cost recovery.

Kapil Singh: Okay. I'll come back in the queue.

Moderator: Mr. Singh, I'm sorry, you were not audible. Your voice is breaking, sir. We'll move on to the next question from Mr. Pramod Kumar from UBS. Please go ahead.

Pramod Kumar: Thanks a lot for the opportunity. And congratulations on a great financial result. Before I move to the question, just a clarification on the other operating income. You did mention that there was a slight change in accounting and the slight lift which came because of the fact. So, if you can just help us understand what should be the normalized other operating income as a percentage of revenues or other way is like what are the kind of additional benefit which you had in the quarterly press on account of that?

Dinesh Thapar: There isn't a change in accounting. It is the way it is accounted for. So, when you make an export in the yesteryear that used to be MEIS scripts that used to get us an incentive, you now get got RoDTeP. You could either use this for your own imports or technically, you could sell them out. When you sell it out so there is a such realization that realization percentage has accounted for quarter-by-quarter depending on what the market prevailing rate is.

That market was a subdued market in the past. Those realizations have improved, right? And duration that we've had on our scripts and their expiry. We have liquidated advance of those scripts in the current quarter at a realization that was higher than what it was in the preceding quarter. And that led to a higher other operational income. That's one factor.

The other factor is also incentives, which is fundamentally the PSI. And you recall when we've spoken about the year-end results, we had called out the PSI booking at that point of time because we had accrued for the full year of last year's PSI in the last quarter. Currently, we're now doing it month-after-month, and that number has stepped up in the current quarter relative to the last quarter, and it did not have a base in the same quarter of last year. So, these two are the incremental impacts of what has flown into the other operational income in the current quarter.

Pramod Kumar: And Dinesh, just to make this easy to model in. Normally, what's a good thumb rule in terms of as a percentage of export revenues that they should use this as a benchmark? And on that note, if you can share what is the current quarter export revenue in rupee terms for you?

Dinesh Thapar: Our export revenues is about INR 3,800 crores.

Pramod Kumar: Yes.

Dinesh Thapar: On a thumb rule, I don't think I can give you a number at this point in time. But the RoDTeP entitlement, clearly, you're aware is of about 2%. And then, of course, it layers on with all the other incentives that we might have. And this whole host of stuff that gets booked. At some point of time, believe you can take the question offline with Anand, but there is stuff which goes into scrap sales on various counts, various recoveries that happened. So, some of those can be a bit lumpy, but the largest chunk in this line, is fundamentally incentives that come in from exports, some royalty that we receive on sales of oil and fundamentally incentives that the government announces for manufacturing. So, there are three big counts, which are out rolled

Pramod Kumar: Thanks for that Dinesh.

Dinesh Thapar: Steps in this time is the improved realization on a sizable chunk of MEIS script's that we have sold that were nearing expiry and got realized in the current quarter.

Pramod Kumar: Thanks for that Dinesh. Rakesh, the question is on the domestic market share situation because -- if you look at the October print, we are running at about 9.5% on average and even September was not a great month in terms of retail market share. And this is despite the supply situation, as you stated, has improved meaningfully for you on the semiconductor side. So, if you can just help us understand what kind of -- because historically, we've seen when you come below 10%, it's not a great -- it's not a healthy market share to be at right. Because it causes a lot of trouble for the dealers and on the viability side.

So how should one look at market share levels which you would like to regain in the domestic market? And what could be the implications of that on the margin because, as I said, there will be – there has to be a trade-off between the two. So how are you thinking about it? And why I'm kind of probing on this is because in the past, we've done our product intervention in terms of bringing in CT100 and repositioning CT100 to a lower price level. But we've done all of that. So how do we see the market share going forward? And what according to you will drive a comeback on the market share side?

Rakesh Sharma: Okay. so, I'm not in sync with the numbers you are quoting. And I think possibly the reason is you're probably looking at the two-wheeler market. We don't look at the two-wheeler market because we are not addressing scooters or, let me say, high scooters and mopeds, right? We are focused on the motorcycle segment. That's point number one. Point number two is that we are looking at market share, while we are talking to you, the media or within our own company in our reviews, not based on our shipments to the dealer but based on registration, which almost 80% to 90%, you get with good accuracy from the VAHAN database.

So, when I look at these two, the motorcycle market share and the VAHAN through retail data. We were at about 19% in FY'22. And that already by March, we had started to face some shortages because of ECU dependencies, which was more particular to Bajaj Auto, we have talked about this quite transparently previously. While the overall industry is going up and down with these semiconductor shortage, Bajaj Auto, in particular, faced a little bit more than the industry, not a little bit or quite a bit more than the industry because of our single source dependencies.

Now, these were corrected in the period of March to August. But because our supply fell dramatically, as you know, in quarter one, we also lost retail market share, and it has committed to about 14% to 15% during the quarter, which, of course, was causing us concern. But if you look at the VAHAN data for September, which is the first full month of having supply, our retail market share has climbed back to 18%. So, we're still on the 19%, which was there at the onset of the supply chain disruption.

But my folks are telling me that if you look at second half September and you look at first half October, already we are touching those levels. And hopefully, with the tailwind behind the 125cc and above segments, in which we are growing much faster than the industry, we will see this market share increase coming up. I wanted to address the second part of your question, which was you were talking about CT100 and all that. So, our approach is that we are not chasing market share at the expense of the profitability. So, we are not shaving up. And the only exception we make today is when we don't have a product solution, then we create a bridge. We have seen that we were very early to stop the 125cc trend, almost 18 months, 20 months back, but we didn't have a product. So, we've taken 1 of our lower SKUs, lower cost SKUs and Pulsar 150 and priced it at almost about 125 level, which bought us some time in terms of giving us play in the 125cc segment, while product development was going on.

As soon as the Pulsar 125 is ready, we increased the Pulsar 125 and restore the prices of Pulsar 150 or in fact, withdrew that SKU. It was a similar story in CT100 when we did not have a product solution, we have used what we had and tried. But the moment we have got Platina 100 and 110 with the tubeless tires and the CT 110X and the CT 110 as soon as the product solutions have come in, we have corrected the prices.

So, what I'm saying is that we are attacking the market consistently to upgrade it from then to this from kick start to electric start from 100cc to 125cc from 125cc to 150cc from non-ABS to ABS. It's a constant maneuver. Some time you might see aberrations to this, which are the 2 illustrations which I gave you. But the central theme and central plan of our strategy is to leverage innovation and cause the market to upgrade.

Moderator: Thanks. We move on to our next question from the line of Jinesh Gandhi from Motilal Oswal Financial Services. Please go ahead.

Jinesh Gandhi: My question pertains to the export demand. So, you alluded to the fact that we are seeing some signs of recovery in August and September. Are you seeing these things across markets? Or is it more to do with LATAM and ASEAN and Africa still under pressure? Can you throw some light on that?

Rakesh Sharma: Yes. Sure. So, ASEAN did not experience a downturn. In fact, the market improves because the pent-up demand because they finally emerged out of the COVID situation and demand has actually improved. There has been a slight decline in the LATAM sector, which is at about 5% levels. There was almost a 20% decline in Africa - in most countries of Africa - in the period of, April to July or so. It's not easy to get data. It's not that African countries have VAHAN kind of thing. So this is all put together.

So, I am quoting our internal assessment. Now this minus 20% has sort of eased off and come down to minus 10% like-to-like period. And we want to watch it for a little bit more time and see whether it will be improving in Africa. And similarly, we find that it is easing off a little bit in LATAM also. And I also feel that ASEAN growth will now temper down a bit because of the pent-up demand. So, I would say the demand in the period of August to December would be better than the period of April to July.

Jinesh Gandhi: Okay. And any update on the 3-wheeler ban, both in Egypt as well as African markets?

Rakesh Sharma: The 3-wheeler ban in Egypt remains. And as I've mentioned before that we are through our partners over their distribution partners over there are in engagement with the Egyptian government to work out solutions to satisfy their requirements of cleaner fuel and better rate aesthetics and lessor congestion, etc. And there is a huge need for mobility and transport in the Egyptian town. There are the villages and the towns that has got very narrow streets. So, solutions of transport cannot be deployed there. So, we are in engagement. And as you know, these engagements take time. But yes, we are positive about the outcomes eventually when they happen.

Moderator: Ladies and gentlemen, kindly restrict your questions to two at a time. We have our next question from the line of Raghunandhan N.L. from Emkay Global. Please go ahead.

Raghunandhan N. L: Thank you sir, for the opportunity. Congratulations on great set of numbers. Two questions. Firstly, on the EV side, company's volumes and EVs are increasing, and there was a media interview, which highlighted 6,000 units per month by March '23. Can you indicate efforts on supply chain and production ramp-up? Also, if you can talk about upcoming EVs and 2-wheelers, 3-wheelers. And are you seeing any delays versus the initial plans? Thank you.

Rakesh Sharma: So, you're right, the volumes are ramping up quite smartly and largely because we've got better supply chain visibility. See the issue with supply chain visibility is also that it restricts the advancement of the network. Our model is that we think that it is important to have touch and feel in the network and dealerships and service centers. And we don't want to go and establish them before we have the ability to service that network with volume. The certitude of volume is very important before we ask the dealer to invest in new network. So that is why we've been calibrating the advancement of our network to the visibility in supply chain.

And that is now coming, and we are seeing a doubling every quarter. The number which you quoted about 6,000 imminently, doable, we have seen visibility up to that. So, we will be expanding the number of cities, I think. Earlier we had thought that we will go up to 100 cities by the end of the financial year. But I think we'll be at around 85 or so because there was a period in Q2 takes you through the supply chain proceed as we had expected. So, we think that we have a very good product acceptance.

The Chetak is a standout product. It stands out in terms of its elegant style. What echo we are receiving from the customers is that they're saying it is practical elegance. So, it's ergonomic, its reliability, it's drive feel etc., is really being appreciated cutting across all walks of life. So, we feel we have to exhaust its potential with a singular focus.

So, we are focusing on that. Whilst we are doing it, we are expanding our portfolio. Over the next 18 months or so, you will see 3 or 4 introductions which will attack new segments, not the same segment, but it will be under the Chetak Umbrella, and you will see we will attack new segments.

In 3-wheeler, I do recall that we had thought we were expected to be in the market by this time. But as we have done our trial a few months ago, we have found that it is important receive feedback from the drivers because these trials are being done actively in consultation with a real-life situation, we found that there are certain improvements to be made in the 3-wheelers, so that the proposition can be accredited.

To give you an understanding of what it takes - as you know, the Delhi government has issued almost 4,500 permits by name. Nobody can have any new 3-wheeler over there. It has to be electric; they've issued these 4,500 permits by name. Since last 1 year, but only 400 has got sold or maybe 500 has got sold. Why? Because the current set of 3-wheeler will be completely rejected. E-3-wheeler e-auto has been rejected by the market because they have a certain set of requirements.

And these numbers are out in request so it's not that. I got some special intelligence. So, the reason why we -- because the e-auto -- potential customers for e-auto is the commercial guy. He has a very stringent requirement on range, on reliability, downtime, charging time. As we have taken the e-auto, we have understood this. And we want to come with a product which is near perfect rather than go with something which is not and try to improve it on the run. We have chosen the path of going back and devoting our product to -- because we've got very, very good engagement levels in the auto.

We've got a very good brand credibility. We do not want to go there and spoil the brand name. So, the trial is sort of extended. We are hoping that they will get completed by end of this calendar year. And before the financial year, we were able to put a product in commercially. But we just want to make sure that we get the key. We get the hot buttons right from our e-auto users' point of view and don't suffer the same fate as some of the other companies are suffering in Delhi in this period.

Raghunandhan N. L: Thank you sir for the comprehensive answer. My second query to Dinesh, sir. Can you talk about what is the Capex expectation? And given the increasing focus towards EVs, how would the share of Capex be skewed towards EVs going forward?

Dinesh Thapar: Thanks for your question. I think our Capex estimate for the full year should be in the whereabouts of about INR 750 odd crores. It is a step-up over the past. You will see from the published balance sheet that we've just put out, the Capex for the first half is closer to about INR 335 crores, INR 340-odd crores. Yes. where much of the Capex going, the Capex is going on clearly-established the EV facility that we have for 2-wheelers, the EV facility that we will have for 3-wheelers in our Waluj Plant, for the expansion of a new site at our Chakan facility for premium motorcycles and then, of course, routine Capex. So, the really large areas of where we are putting in our Capex money. And like I said, I expect that to be the ballpark INR 750 crores for this year.

Moderator: Thank you. We have our next question from the line of Gunjan Prithyani from Bank of America. Please go ahead.

Gunjan Prithyani: Thanks for taking my questions. Most of my questions have been answered. I just have 2 follow-ups. One on the export side. There, I mean you did mention these currency volatilities impacting the outlook, but there was also this press talking about regulatory ban. Could you just share some thoughts on that what is it really happening on the ground? Is there an order in place? Or how should we read that ban? And in the same on the export side also, if you can explain the Q-on-Q realization, it seems to be almost 13%, 14% up. So that's on the export business?

Rakesh Sharma: Sure, Gunjan. I think that the regulatory ban, which you are referring to pertains to the news emanating out of Nigeria and not Egypt because Egypt is old news, which is kind of was put into effect for 3-wheeler in October last year, though we continue to ship out where the government had allowed relevant orders to be shipped and that went on to March.

So, I assume you're not getting to that is viewed as referring to the motorcycle ban in Nigeria, which is the largest market in Africa. Here, there is no gazette, but a lot of governorate and municipalities take their own course of action. And there is a ban in Lagos, which has actually been in place for some time now but has been enforced quite stringently. Why have we not called that out specifically?

Because in the overall scheme of things, it is as a percentage small. Lagos city market is only about 10% of Nigeria. And that has -- from 10%, it has come down to 1%, 2% because there are certain exceptions which are allowed. So just come down to that. So, in the overall scheme of Nigeria or let's say, Africa, it is not a very, very big number.

Gunjan Prithyani: Okay. Got it. The second question I had was on the market share in India in the domestic business. When I look at it, yes, you've been defending the market share that similar levels of 18%, 19% in the bike segment. But when I go down looking at the mix, of course, 125cc has made really good in roads. But at the same time, we seem to be losing in the premium bike segment.

Now structurally, that's a great opportunity to be in and new Pulsar has sort of been losing market share in the last 12, 18 months. So, what is the thought process in terms of fixing the market share in the premium segment? What sort of interventions are we looking at to recoup that market share?

Rakesh Sharma: Yes. See, Gunjan, the more severe impact on the Pulsar market share was because of the supply chain disruption which caused us to reduce market share at a retail level also for was the billing market share, we don't track that as much. And that was pretty serious and most recent. But if I take a 3-year long shot view of things, you're right, the market share has eroded, but we didn't do that. I mean it was eroded by 2, 3, 4 percentage points and which was causing us concern because we are, at the end of the day, the leaders in that segment.

And that has given right to the initiative that we must now refresh the whole Pulsar platform. And this is one of the few instances where a very successful platform, which was resulting at a 40%-plus market share and with 2, 3 percentage point erosion running at that level, but we still decided to not refresh it, in fact, completely upgrade it. And that's why in a calibrated program, we launched the 250 in October last year, we launched the N160.

We will launch a couple of new products in the same platform in November, which has completely changed the face of Pulsar, and this gives us an opportunity to completely change the customer experience as well as talk about the plan. In auto, nothing like a new product introduction to talk about the brand. Otherwise, everything else is stale news.

With the supply chain going off, I'm already seeing the market share approaching the sports segment to 40% level. I think they are about 37%, 38%. We're approaching 40% levels. In the next 6 months, as the whole Pulsar story plays out, we again think that we will be comfortably beyond the 40% level back to what we were, let's say, 3 years ago because I think that because we are getting a very good echo from the market says about the acceptance of the N160, which was very crucial. 250 was accepted as well, but the 250cc is a very small part of the whole motorcycle industry and as the 160, which is the more mass product. So that's a good sort of happening outcome.

Gunjan Prithyani: Does the export realization and I'll join back the queue, if you can 13% if you want to increase?

Dinesh Thapar: Let me cover that, Gunjan. I think your question was on export realization. So, I think if you look at export volume, export volumes were down about 20%. And export revenues were down close to 10%, 11%. Clearly, what aided that the bridge between volume to value is better mix with clearly a number of the African geographies showing some amount of pressure. There's been a lesser export of commuter bikes. So low-end commuter bikes have led to just an improved mix we've sold more commercial vehicles, and that's, therefore, aided mix as well. And then, of course, the last is better dollar realizations.

Moderator: Thank you. We have our next question from the line of Chirag Shah from Nuvama. Please go ahead.

Chirag Shah: Thanks for opportunity, sir. Just a first housekeeping question. One, staff cost, there is a value decline. Is there anything to call out in that? Or it's a normalized trend? I think sequential decline, Q-on-Q decline?

Dinesh Thapar: Yes. So, Chirag, if you're looking at the previous quarter versus the current quarter, a couple of things. One is the last quarter was a quarter of increments. And therefore, when you pay out increments, you also restate liability for various retiral benefits. And so therefore, that was a onetime charge that got taken with the increment cycle last quarter. It did not reflect this time.

And the second was, of course, true-up of various performance pay and other payoffs that had to happen, which have flown into the current quarter. So really these 2 have covered relative to a charge of last quarter. We have not had the first element this time, which is the higher payout on account of, let's say, leave encashment. And the second, as I mentioned, was the true-up that we accounted for the current quarter of performance pay.

Chirag Shah: And any comment on gross margin Q-on-Q decline if sales minus raw material, actually, the margins have declined sequentially despite a better dollar realization and some of the aspects. So, is it an even better mix? So, is it more driven by regional mix or there are some elements of pass through that you did?

Dinesh Thapar: Yes. So, I think on the overall piece mix has been adverse at an overall entity level purely because exports have been lowered, domestic has been higher. And within domestic, there's been a significant build back of the end commuter segment as well. So as an enterprise level, while we have spoken about mix improving in various pockets of the business at an overall enterprise level mix has been adverse.

Chirag Shah: Yes, because it's 120 bps, it's a reasonably sharp decline for -- that's not been the general trend for you. Okay. Sir, second is on the Chetak side, just -- because if I go back a quarter or so, our aspiration was to do 10,000 units a month kind of a run rate by Q4. And now the aspiration seems to have gone down significantly to 6,000. So, any comment on that?

And also, if you can indicate the current state at ground level given the government strong vigilance on localization, proving and all the stuff. If you can comment on that, it would be helpful?

Rakesh Sharma: See, the aspiration is still there. There is no reduction in the aspiration, but the number which we telling you is based on our supply chain visibility. We've got 773 dealers throughout the country and it's very easy for us to flip a switch and be these dealers signing new agreements and start to create a network purchases.

But we have to do it based on calibrated to the supply chain visibility. And so, we are still looking at increasing that. And we will see in the next quarter or so, let me say, the next 6 months, the addition to our portfolio and see whether we can use new products to get to that kind of level, but it's really driven by supply chain visibility.

Dinesh Thapar: We see the supply chain constraints.

Chirag Shah: Sir, any comment on this subsidy issue as the government has increased its vigilance on and giving out or rolling out this subsidy, how should one look at that industry and who will benefit in that sense because it gives an opportunity for a player like you to ramp up at a faster pace?

Rakesh Sharma: I'm sorry, not understood, which subsidy are you talking about?

Chirag Shah: Recently, government has indicated that OEMs have to prove the localization and they are really monitoring the encashment of subsidy on the EV side?

Dinesh Thapar: So, Chirag, no new news for us because we've, in any case, been on the path of localization. I'm presuming you're talking about the Phase 2 subsidy, right? Is that the reference?

Chirag Jain: Yes.

Dinesh Thapar: No more different from that from our perspective, it's not new news. Of course, what they're doing is to tighten with the intention of incentivizing local manufacturing and localization of components. Like I said, nothing new from a financial perspective, we continue to remain compliant. We continue to deliver the threshold domestic value addition.

And the take subsidy is being passed on to the customer through our dealerships as we stipulated. So not a new development. So, I'm not sure where the question is emanating from. Have we answered that? Or is there something else to clear the thing?

Chirag Shah: No. Thanks, a lot. So, if I can squeeze in 1 last question, and it would be helpful if you can highlight. So, there was a new vertical which indicated that there are 5 new name that have been trademarked like Darkstar, Twinner and Dynamo, etc. Any comments from your side? Are there existing models in pipeline for which these trademarked or and when can some of you see the light?

Rakesh Sharma: See, this is an ongoing process. If you see over the last 5 years, there are very bad days, which are registered because you have to do fast on this. We obviously know the kind of product pipeline which we are having over the next 3 to 5 years. But at this stage, we would not like to go into what new brand or what new product is being launched. So, it's a regular exercise we spot a good brand name. We might as well register it for future use.

Moderator: Thank you. I would now like to hand the conference over to Mr. Anand Newar for closing comments. Over to you, sir.

Anand Newar: Thank you very much for joining the call. I'm happy to take the questions after this call with all those who wanted to have a conversation. With this, thank you everyone and a very happy Diwali.

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

Dinesh Thapar: Thank you.

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