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THE WORLD'S FAVOURITE INDIAN

3 May 2023

To Corporate Relations Department **BSE Limited** 1st Floor, New Trading Ring Rotunda Building, P J Tower Dalal Street Mumbai 400 001	To Corporate Listing Department **National Stock Exchange of India Ltd.** Exchange Plaza, 5th Floor Plot No.C-1, G Block Bandra-Kurla Complex Bandra (East), Mumbai 400 051
BSE Code: 532977	**NSE Code: BAJAJ-AUTO**

Subject: Transcript of Conference Call held in respect of the Company's Q4- FY23 results

Dear Sirs/Madam,

Please find enclosed the transcripts of the conference call held on 25 April 2023 in respect of the Company's Q4-FY23 results.

The transcript will also be hosted on the Company's website at
https://www.bajajauto.com/investors/financial-and-operational-performance

Kindly take this on record.

Thanking you,

Yours faithfully,
For Bajaj Auto Limited
SRIDHAR JAYARAMAN

Digitally signed by SRIDHAR JAYARAMAN
DN: c=IN, o=Personal, title=0578, pseudonym=409357094D926E08E911CD96B2D988A2F460F730, 2.5.4.20=35497082a56e46ec18c8e5b60dfb186f43b940c9ae53bdea860b81e363f81fe2, postalCode=411045, st=Maharashtra, serialNumber=F344A18751FDCA02894AA6FA560F959A4E637A0F08F921E8C8289C210540260B, cn=SRIDHAR JAYARAMAN
Date: 2023.05.03 16:54:47 +05'30'

Dr. J Sridhar
Company Secretary

Encl: as above

"Bajaj Auto Limited
Q4 & FY 2023 Results Conference Call"
April 25, 2023

MANAGEMENT: **MR. RAKESH SHARMA – EXECUTIVE DIRECTOR – BAJAJ AUTO LIMITED**
MR. DINESH THAPAR – CHIEF FINANCIAL OFFICER – BAJAJ AUTO LIMITED
MR. ANAND NEWAR – HEAD, INVESTOR RELATIONS – BAJAJ AUTO LIMITED

Moderator: Ladies and gentlemen, good evening and welcome to Q4 and FY 2023 Results Conference Call of Bajaj Auto Limited. My name is Faizan, 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 the management. Should you need assistance during the conference call, please signal the operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

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

Anand Newar: Thanks, Faizan. Good evening, everyone, and thank you for joining us for the call today. Our Board meeting continued slightly longer than what we had intended and hence there was a short delay. But without wasting any time, let me welcome you all for the Bajaj Auto's Q4 and 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 our opening remarks from Rakesh on our business and operational performance for the quarter and then 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 call. We truly appreciate you are taking the time to be with us. Before we dive into the quarterly performance, I know you have just received the press releases, but let me emphasize the highlight for the year, FY'23. It was a record year in our company's history as we set new milestones for all key parameters, revenue, spares revenues, EBITDA, and PAT. And the fact that these results were delivered against the backdrop of supply chain challenges to begin with, a lot of you will recall, we had a terrible Q1 because of chip shortages and being over-dependent on vendors.And then, of course, a sharp decline in exports due to major shifts in the currency markets. So, against this backdrop, the record-breaking performance is very satisfying for us. It once again underlines the resilience and robustness of the company's operations as well as the well-balanced architecture of the product market construct.

The quarterly performance was similar. We have delivered a good set of financial outcomes with revenues growing by 12%, led by solid performance from the domestic business, both 2-wheelers and 3-wheelers, growing and improving both mix and pricing. Operational profits or EBITDA increased even faster, up 26% year on year, delivering an EBITDA margin of 19.3%, again demonstrating solid operational performance despite the drop in exports volumes. Of course, Dinesh will add more color once he covers the financial performance in detail.

Now let me address the different business units, exports business units. As anticipated, the business environment remained challenging through the quarter, and volumes were down sequentially by 20% compared to the previous quarter, which is Q3, largely because business came to a near standstill in Nigeria on account of elections-related unrest as well as demonetization. This impact really was severe in February. We have, of course, then zeroized our exports there to minimize exposure to stocks. However, retails have bounced back post-elections and the repealing of local currency curbs.

The April month too, we are seeing a gentle but positive upward trend compared to March. So, February was a disaster, March was a return to the lower normal, and April is appearing better than March. Other markets, in summary, apart from Nigeria, demonstrated slightly better retails in Q4 compared to Q3. So, this does indicate a bottoming out of the sharp fall in retail demand which had commenced in Q1 of this year. The consumer seems to have started to accept the higher prices as the new normal, and our exports have trailed retails over the last 15 months, indicating a fair bit of downsizing of channel stock.

Now, as retail trends improve, we will need to rebuild stocks. Having said that, there is a second issue which hits exports, as you know, and that was the availability of US dollars for trading. Central banks in most countries continue to take a cautious view, and for exports to fully resume besides demand moving up, this knot of the US dollar being more easily available needs to unravel, and it is difficult to predict when precisely this will occur. Though we are hoping that by the time we enter Q2, some relief may be expected, barring any black swan events.

Our approach to managing the exports business in these turbulent times has been to stay the course, because we have seen in the past the pendulum keeps swinging, and to stay the course without compromising on the fundamentals. Therefore, market share remained protected across almost all key countries. Channel stocks were rapidly minimized to control exposure of our distribution partners and not let them be financially weakened. We did not attempt to mitigate the devaluation in the local markets by price reductions. Instead, we have passed on cost increases and maintained EBITDA standards.

We continue to refresh our portfolio. LatAm countries received the new pulsers, in fact, they have received them extremely well. The Pulsar N250 and N160 are both promising to race to the top spot in their respective classes across the large markets of LatAm. New products in the boxer range are also on their way as we speak of Africa and should set better performance standards and allow us higher shares in weaker segments.

The Dominar brand has had an outstanding start in Brazil and already demand is outstripping supply, resulting in a 90-day waiting list. As we resolve the supply chain issues, the distribution footprint is being steadily expanded with top-class sales and service showrooms. So therefore, it would not be an overstatement to say that we are poised for a surge as soon as the currency becomes available and trading conditions improve.

Domestic motorcycles, the good news is that after several quarters, the domestic motorcycle industry is finally showing some true growth in the last two quarters. What I mean by true growth is that when you sanitize growth for the base effect etcetera. Retail sales have been good and VAHAN registrations for the industry have grown by 16% in FY'23 over FY'20, largely powered by Q1 but that was the base effect and in the last two quarters. However, the 100cc segment is only marginally positive and almost entirely this growth has been driven by the 125cc plus segment.

The 100cc and below and the 125cc and above now each account for 50% of the motorcycle industry. We expect going forward an industry growth of 6% to 8% over the next few quarters and yet again we think most of it will be driven by the top half, which is the 125cc plus segment. This is particularly good news for us because over the last six months we have launched six new models taking our portfolio in this segment, in the 125cc plus segment, to 20 models compared to 15 of the next competitors and there are a few which are in the pipeline as well.

The customer has never enjoyed such a choice and I would like to single out the Pulsar N160 which has been recognized by the auto journalists as well as the outstanding new model. Then the latest and most recent upgrades of the Pulsar NS series which now come with an upside-down fork and a few other things have been received very well too, breathing new life into this premium range.

Consequently, our market share for Pulsar in the 150cc to 250cc class is back to over 50%, which if you recall had weakened in the period before FY'22. We will continue to introduce newer variants through the year in the Pulsar brand. In a few weeks we will commence our media campaign to rapidly build awareness of the new Pulsar range, promising a Pulsar for every type of Pulsar maniac. Our market share in the 125cc segment has improved and today 60% of our domestic motorcycle sales come from this segment. Just three years back it was only 50%. This positively impacts margins and ASPs as well as the competitive position because it strengthens quite significantly the flagship Pulsar brand.

We acknowledge that it is not easy to build share in the 100cc segment without severely compromising our profitability standards. Hence, we are attempting it based on meaningful fit for purpose differentiation. The Platina 110 ABS is an outcome of this approach. It was launched to significantly improve safety performance of the vehicle and is the first 110cc in the world to have an ABS braking system. This has been accompanied by a massive test ride campaign demonstrating the braking prowess to over 3 lakh users already. You may have also witnessed the Ruk-Ruk advertising campaign. It has not been in IPL so far but now you will start to see it on IPL next week onwards.

This has resulted in a steady buildup of volume. We will be persisting with this direction and will continue to chip away on the share in the 100cc class. With a vibrant Pulsar portfolio and an emerging differentiated Platina, domestic motorcycle business too appears well poised to harness the improving industry trends. The premium motorcycle business KTM achieved its highest ever sales and that too with higher displacement Dukes and Adventures.

There was a period when we sort of went through the 125cc and the 200cc but now the quality of the portfolio has moved to the 250s and the 390s in the Dukes and the Adventures and even the RCs. We believe a good share of this growth has been driven by the pro XP ride experiences being delivered by us on the track, on the trail and on the tarmac. We are launching Adventure X at an attractive price of INR2.8 lakh. I think the Adventure 390 is at something like INR3.4 lakh if I am not mistaken and hopefully this will give us inroads into the growing touring segment.

However, the big move in the higher displacement classic bike segment will be the jointly developed Triumph products. The new lineup will be launched globally in London on 27th June by Triumph UK and retail sales will commence sometime thereafter. The Triumph and Bajaj partnership is a non-equity, strategic alliance to co-develop new products to be sold under the Triumph badge. The jointly developed products will be made in our brand-new facility at Chakan and sold all over the world. India and a very few select overseas markets will be managed by Bajaj Auto and most of the markets will be managed by Triumph directly.

In preparation of the existing Triumph network in India, outstanding dealerships has been integrated on 1st April with Bajaj Auto's operations. We are very excited and expectant about this opportunity. The models possess mouth-watering appeal and will surely delight a huge number of Triumph fans. We are setting up a new and exclusive network of stores in keeping with the exacting Triumph global standards.

Domestic 3 Wheelers - it continues to deliver a strong and steady improvement quarter-on-quarter. This steady performance is reflected through a recovery to pre-COVID levels at 109% for Bajaj Auto versus 45% for the rest of the industry. Our leadership position in the category has strengthened even further with an all-time high market share of 78% in March. The continuous expansion of the CNG segment and solid support by Bajaj Auto Finance has driven both market share and profitability.

On Chetak, I am delighted to announce substantial progress on several key initiatives signaling a change in the approach, scale and quality of the business going forward. The EV supply chain has been restructured and a number of development programs in collaboration with important vendors have made very good headway. This not only assures us the availability of more than 10,000 Chetaks going forward from June onwards, but it also lowers costs that will enable Chetak to be accessible to more customers.

The revision of pricing had an immediate and profound impact which may not be visible to you. While the retail jumped from 3,000 to about 5,500 levels, booking grew to almost 8,000 levels. We continue to build a smart and elegant exclusive sales and service network and we have accelerated this exercise on the back of this renewed interest. An upgrade is in the works and will be launched in the next couple of weeks. Right now, we are in about 85 towns and by the end of the first half we should be in 120 towns and 150 stores. This would cover 80% of the high-speed market in India.

Our electric three wheelers have completed their field testing and we are doing a limited launch of both the passenger and cargo versions by end of this month. We are waiting for FAME certification. Production has just commenced and as soon as we have the certificate, dispatches will begin. The dealerships are ready, and the manpower is trained. We believe that our product will provide a best-in-class experience and not disappoint the loyal customers of Bajaj RE who have waited a long time for our entry. This quarter also marked the commencement of supplies of Bajaj designed and manufactured products for Yulu, our strategic partner in the mobility as a service space. Three attractive products targeted at low speed, short distance, personal, commercial & delivery segments have been launched and stay tuned to hear more on our collaboration and product launches with them.

As we stand here at the start of FY'24, having achieved a record in FY'23 while successfully navigating a very tough year, we are optimistic about our delivery in FY'24. The motorcycle business has a strong, refreshed and performing portfolio in line with market trends. The Triumph brand is set to open an absolutely new segment. The 3-wheeler business is already at a commanding and strong position and driving the growth of the market.

Chetak's new pricing and upgrade set us firmly into the scale-up phase. The electric 3-wheeler, which is just about to be introduced, will also have the full runway of the year to scale up. If we see an early turnaround of the trading environment in exports, we are optimistic we will set another new record in FY'24.

With this, let me hand it over to Dinesh for his commentary.

Dinesh Thapar: Thank you, Rakesh. Good evening, everyone, and thank you for taking time again to join us for this call. You know, from what started out to be a constraining phase with very soft results in the first quarter of last year, about the same time that we were talking, to now finishing the year with a record performance across both revenue and profit, you will agree that we have come a long way. We have made very significant progress. We have taken very decisive actions to deliver the resilience in our results that you would have seen earlier this evening.

But before talking about the full year, a few comments on the fourth quarter. And as is typical, let me start by giving you a sense of the operating context that will set a frame of reference against which our financial results were delivered. It has been a quarter of continued challenge, but again, a story of two parts. On exports, as you just heard from Rakesh, the demand situation across key overseas markets was a bit rough. I would say progressively worsened, particularly given the situation in Nigeria, and something that all of you would have already figured about from our monthly sales releases.

The decline was particularly accentuated by the recent elections and demonetization in Nigeria, but we would like to believe that we have now hit a bottom on that. Early days, but at least signals in March, we were quite encouraged. The retailers started to outstrip billing, and that is visible from the most recent numbers. But I have to say that singularly on the exports front, the one piece which constrains our business is the availability of foreign exchange. That is the biggest volatile and uncertain factor. And that is something which is hard to tell as to when that will change, but I think we are well positioned. As the situation unfolds, we remain steadfast in ensuring our competitiveness. Our market shares are holding steady. Pipeline inventory is comfortable for us to be able to build back as soon as the challenges on foreign exchange across those geographies end.

On the domestic front, there has been a steady improvement of demand across both 2-wheelers and 3-wheelers. Most specifically, our performance was buoyed by the strong performance of the Pulsar portfolio, as it has been for some time. Further scale-up in the volumes of the Platina 110 ABS that we launched in the last quarter, and of course the growing preference for the Bajaj 3-wheeler, which now has registered record high market shares.

Once again, it has been domestic that has allowed our results to be resilient, and yet again, you would agree, it reflects a strong structural advantage that we now have in our operating model that enables us to deliver a solid financial performance despite the challenges on exports. And so therefore, when you look at it across two years, between FY'22 and FY'23, in FY'22, we had very buoyant exports that led the way. And in FY'23, it is the momentum of the domestic business that has helped salvage the drop that we had in our exports business. The growth in the domestic business was broad-based. We had pretty much all our businesses, whether it was 2-wheeler motorcycles or the top-end sports motorcycles, which is essentially the KTM franchise, and 3-wheelers, all registered double-digit growth yet again for multiple successive quarters now.

Let me turn to commodities, and commodities really this quarter have been a mixed bag. I may have mentioned in my last call, we did observe a hardening of commodities on a few fronts. So aluminum was up, copper was up, nickel was up, and a few noble metals inflated in the course of this quarter. But this was offset by a softening of, let's say, electrical, rubber, polypropylene, and foam, and really parts of what I would call the energy complex, or really the petroleum-linked products. And therefore, the balance between inflation on some of the metals was offset by this part of the portfolio, and that essentially led to the quarter being a flattish quarter relative to the previous quarter in terms of overall material costs.

The currency situation in terms of the INR has been relatively stable, more or less flattish for us. Our realizations were at 81.5 compared to 81.7 for the previous quarter. Supply situation, which was a large part of the commentary and conversation in the early part of this financial year, now for a couple of quarters has no longer been a factor. It remains relatively stable, although slightly tight, and it's been less of a conversation, but that's the most heartening piece. And you will recall that same time last year when we were speaking, it was a top-of-mind subject.

Again, a reflection of the many actions taken by the team to build supply security on the single-source components. The tightness on the EV supply chain is being managed through interventions, which continue to be underway, and is positioning us well for a scale-up on our EV business to the 10,000 units milestone that Rakesh just spoke about.

Talking about our numbers, we reported revenue from operations of about INR8,900 crores. That was up 12% on the back of significant volume-led revenue growth of greater than 50%. You would have noted from our monthly submissions that volumes on the domestic business grew upwards of 30%, but revenue came in upwards of 50%. And so therefore, when you look at it from a year-on-year basis, judicious pricing, better foreign exchange realization, and a richer product mix, all three levers have contributed to this revenue growth, and more than offset the decline that we've seen in overall volume that was aggravated by slowing exports.

On spares, we continue to do well and continue to register new highs. EBITDA has maintained its momentum, growing at a strong 26% year-on-year in this quarter to INR1,718 crores, with margin expansion of 220 basis points to 19.3% compared to the same time last year. Now, when I talk about sequentially, last quarter we were at 19.1%, this quarter we moved to 19.3%, and this essentially, this improvement in margin, has essentially come from a richer product mix of higher CV and higher sports motorcycle sales, which has offset the operating leverage impact, the negative operating leverage impact of a smaller revenue quarter this time compared to the previous one.

But in overall terms, price realization and material cost has held flattish in this quarter relative to the previous one. So essentially, margin improvement that you're seeing sequentially has come in from mix, while material cost and price have held flattish. Our reported profit after tax came in at INR1,433 crores versus INR1,469 crores in Q4 FY'22.

But I want to spend a minute here to remind ourselves as to why 26% growth in EBITDA essentially translates to this near-flattish growth in PAT. Many of you might recall that in Q4 of last year when we had reported our results, we had flagged off an exceptional income of INR315 crores that we had reported as exceptional items. This was essentially towards the package scheme of incentives, approvals that we had received. We have received sanctions for the package scheme of incentives for our Waluj plant. This is a 2007 scheme and pertains to volumes generated from Waluj between 2015 and 2021.And because it pertained to prior years and we had received the sanction letter in March last year, we reported the prior period item as an exceptional item. So that was INR315 crores of exceptional income that we had booked into the quarter four results of last year that you will see on the exceptional line. And so therefore, if you had to isolate the impact of the exceptional items from the base, our profit after tax would have grown at a very healthy 16% year-on-year as opposed to what you might be seeing as near-flattish or a minus 2 on the headline numbers. So that's the one piece I'd like you to register because it was a significant exceptional item in the base quarter.

On balance sheets, it remains very strong, very healthy. The surface cash is at INR17,500 crores nearly at the end of March. And this, you will be aware, has come on the back of last year's dividend payout of about INR4,000 crores and a share buyback of about INR3,100 crores, which is including the buyback tax that we expended and concluded in October last year. And capex, of about INR1,000 crores that we spent across our two entities of Bajaj Auto and Chetak Technology, which is a fairly substantial investment that has largely gone behind setting up new capacity in a new plant, which is essentially Chakan 2 in Pune that we've set up for the impending rollout of Triumph, and investments made behind the EV business. This is the EV 2-wheeler business.

Looking ahead, I think there are many moving parts. On exports, while we are unable to really pin down as to when the dollars are going to come in, that's fundamentally the biggest factor as to when dollar availability will improve across geographies, we'd like to believe that we are well-prepared. Our pipeline will allow us for a flush of billing to happen as soon as these constraints start to ease out. Domestic motorcycles, we'd like to see continued momentum, especially with the large marriage markets coming through in this quarter. On commercial vehicles, the sales momentum should remain active. The business is doing well in good stead. And this will be aided by the much-anticipated launch of the electric 3-wheelers. Anytime now you've heard Rakesh talk about this at length.

On electric vehicles, FY'23 was really about putting the enablers in place for the scale-up of Chetak, and FY'24 really is the scale-up of Chetak. And that's something to watch for. We're currently in many more cities, many more dealerships, with many more experienced centers, more than we've had in the past, and clearly poised for further expansion in the days ahead. On the outlook for commodities, you know, the cycle seems to be turning. I had hinted last time around when I'd spoken that we're starting to see traces of inflation come through on commodities, and I'd like to just reinforce that. We think that the cycle is turning, particularly on steel. Who knows how it will go through the rest of the quarter, but if any indications are to be gone by, we think we could be looking at some inflation in material costs, which is largely steel led in the course of the current quarter.

Having said this, we've taken a round of pricing at the beginning of this quarter, given this inflation context, to cover costs, and to essentially cover costs for the OBD-IIA compliance, you know, that kicked in from the 1st of April.

Now, since this is also a year-end, let me spend a couple of minutes on just the comments for the year-end. So, a quick snapshot of our annual performance. You just heard Rakesh speak about it. We put it out in the press release. We've got a record high now on revenues and on profits – so across the breadth of our financial statements.

We closed the year with more than INR36,000 crores of revenue, up 10% year-on-year, notwithstanding sluggish volumes arising out of macroeconomic challenges on export markets, and EBITDA of over INR6,500 crores, up 25% year-on-year, on the back of very solid margin expansion of about 210 basis points. Now getting to about 18% for the full year, with exit margins at nearly 19.3%, as I just called out. And finally, we closed the year with profit after tax at a new high of INR5,628 crores.

I'd like to just reinforce that this result was delivered against the backdrop of an extremely challenging operating context. And if you recall our discussion months ago, you would appreciate that our business performance and conversations were largely colored with supply constraints and challenging macros across export markets, led by a host of factors, whether it was currency availability, political uncertainty, currency depreciation, high and raging inflation.

But now we're here and we announce our best ever year on both top line and bottom line, despite those challenges. Let me also reemphasize the strength of our brands that you would have picked up from our press release, and it is very notable to point it out. And thanks to some decisive actions that we've taken, both on innovation and execution. Our iconic motorcycle brands, Pulsar, Dominar and KTM, have now registered in this year their lifetime high revenues.

And on 3-wheelers, we clearly have registered a record high on our market shares as well. Also, I think as you reflect back on these quarters, we've taken a range of very decisive interventions across portfolio, on network, and in terms of just the capabilities within the business. The upgrade of the Pulsar portfolio, the redesign, the re-engineer for superior performance, the launch of the Platinum 110 ABS first-in-segment feature that provides better stability and control, entry into one of the largest, and most attractive 2-wheeler markets in the world, which is in Brazil, with the well-recognized and iconic Dominar brand, and we are very encouraged by the early response. Really driving supply security, which was a foremost priority for us at the start of the year, as we've onboarded multiple supply chain partners to really reduce single-source dependency. And thankfully, that's now a thing which is behind us. And we've made very substantial investments behind the EV business in product development and really in manufacturing and in expanding the go-to-market network.

Finally, let me conclude by announcing that the Board this evening recommended a final dividend of INR140 per share. This would essentially translate to about INR4,000 crores of a dividend payout. And then this, along with the share buyback and corresponding tax that we concluded early in the year, will add up to almost INR7,000 crores of cash that we are paying out to shareholders relating to FY'23 in itself.

With this, let me hand the session back to Anand, and I'll open it up for Q&A. Thank you.

Anand Newar: Thank you. We can open it for Q&A, Faizan.

Moderator: Thank you very much. We will now begin the question and answers session. The first question is from the line of Chandramouli Muthiah from Goldman Sachs. Please go ahead.

Chandramouli Muthiah: Hi. Good evening, and thanks for taking my questions. My first question is on the profitability per unit that Bajaj sold this quarter. It seems to be at a record high despite the 13% lower volumes quarter-on-quarter. I think you called out mix, better 3-wheeler mix, better premium motorcycle mix as being the primary visible driver here. So just trying to understand going forward, I think we've had almost a 25% Y-o-Y improvement in ASP profile for the company versus 4Q of last year. So, do we expect further improvement on the margin profile and on the EBIT per unit from mix in the quarters ahead as well?

Dinesh Thapar: Yes, and thanks for your question. So, you're absolutely right in the end to call out that the sequential margin improvement from 19.1 to 19.3 was driven by a richer product mix that was partly offset by the operating leverage impact of a lower revenue quarter compared to the previous year. Looking ahead, I wanted to call out saying that look, there is inflation on the horizon. Whether it plays out to its fullest, time will tell. But early indications are that the cycle is turning. Our attempt will always be like any well-run company to try and look to hold profitability to drive modest improvement in operating margin. There are multiple moving parts to the function of where you see the currency, what happens to inflation.

We've taken pricing earlier this quarter to cover both inflationary costs as well as the OBD-IIA impact for compliance. As exports market comes back and large markets like Nigeria and Africa come back, there could be an element of mix that might start to hurt. But I suspect that with the overall pie growing, there could be operating leverage that comes in as well. So many moving parts and therefore the attempt will be to try and sustain margin while competitively investing behind the business. But recognize that I think on commodities, we'll have to wait and see how it eventually plays out and whether the cycle will last out or if it's just a short-term move.

Chandramouli Muthiah: Got it. That's helpful. My second question is on the export markets. I think when I do sort of rough back of the envelope math on your export currencies, some of the larger markets, Nigeria, Egypt, Bangladesh, Y-o-Y, there seems to be not a 10% depreciation in these currencies, which I think you've also been alluding to. I think our company sort of sells in US dollar terms.

So over time, where do you think sort of affordability is in these markets for maybe some of the box-arranged products? Is this something that you think might take slightly longer to recover? I think earlier we were talking about a May-June kind of recovery for export markets. So just your sort of updated thoughts on when the export market might turn in this backdrop.

Rakesh Sharma: Yes. So that is something which we constantly watch. And no doubt, you know, there has been general inflation, a little bit of erosion of purchasing power. But in the entire Africa and parts of South Asia, we find counterintuitively that when the economy struggles, the sales of these ranges actually improve because they profit from this whole surge of self-employment. And this is a very important avenue for employment. So, there is a shock when the prices go up. But over a period of time, you get adjusted. These are commercial vehicles. You get adjusted. And they're passed on as high-ticket prices to the commuters.

Africa is almost 95% taxi purpose, right, or maybe 99%. Therefore, that part sort of resolves itself over a period of time. We have seen it in the past. In fact, some of the best months in Nigeria have been when, you know, we've been hit with price increases. The issue is really the availability of the currency for trading because the banks are taking a cautious stand, getting to open LCs and all this stuff. And that is what we are referring to when we are saying that hopefully another three months, some kind of equilibrium to set in. But we don't have a real basis for saying that.

From a demand point of view, we can see some green shoots, but from a dollar availability point of view, we just have to wait and watch. And we are more worried about the latter, which is the dollar availability, than the demand, frankly speaking.

Moderator: Thank you. Mr. Muthiah, may we request that you return to the question queue for follow-up questions? We'll take the next question from the line of Jinesh Gandhi from Motilal Oswal Financial Services. Please go ahead.

Jinesh Gandhi: Hi, sir. A couple of questions from my side. One is you alluded to the fact that export pipeline, inventory pipeline in exports is quite low and there is scope to normalize it as demand recovers. So, can you talk about where we are today in terms of our pipeline inventory in exports versus the normal level?

Rakesh Sharma: See, it's difficult to give you numbers because we are talking of 96 countries, out of which at least 40 are very meaningful and we monitor these. And you know, there are some countries let's say, like Bolivia, Ecuador, etcetera, where a four to five-month inventory is required. And there are some like Bangladesh where you can do with a four-week inventory. So, it's very difficult to reduce this to a certain number and give it to you because the rates keep changing.

My comment is based on our individual bottom-up understanding. Today we've normalized for 15 months now, largely exports have been trailing retails. So, we have systematically downsized the stock. And the covers are low. The moment trading conditions improve, we will need to build the stock. And this is making the assumption that demand will continue to improve, though gently, but it will continue to improve.

So, I would say we don't have a channel stock problem anywhere in the world. I mean, we have some small countries here and there. But I would say generally there would be an appetite for building stock almost in all countries once the gate of the US dollar availability, opens up.

Jinesh Gandhi: Sure. And can you update on the 3-Wheeler ban in Egypt? Where are we in terms of our working with the government to work on that? And secondly, if you can share revenues for spares and exports? Thanks.

Rakesh Sharma: Yes, the 3-wheeler continues to be banned. We have had a good exchange of visits to formulate the replacement of the 3-wheelers going ahead, which takes into account the concerns of the Egyptian government with reference to having a better solution if they want for places like the new Cairo. We are fully aligned with them. We have worked with different ministries.

And hopefully we will start to action this in the next two, three months by new shipments. I would not like to go beyond this because this is still a matter being discussed between the government of Egypt, our partners over there and us. But it is looking positive.

Moderator: Thank you. Mr. Gandhi, may we request that you return to the question queue for follow-up questions?

Dinesh Thapar: I think, let me just complete, I think, Jinesh had two questions on spares. Jinesh, their revenue was in the whereabouts of about INR1150 crores for the quarter. Your second question I thought you asked was what was the export revenues? And for the current quarter, the export revenues are about 370 million.

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

Pramod Kumar: Yes, thanks a lot for the opportunity. Rakesh, sorry, I'm just getting back to the export market again, because we did on the earlier call, last quarter call, we did talk about some expecting reasonable recovery in exports from June. Now, given what you're telling us about the macro, looks like the recovery is going to be probably more prolonged. So, in that context, how should one look at FY'24 as a year or as far as you have visibility, like even if it's like six months, like how you guided on CNBC recently on domestic market for six months?

Is there anything that you can help us in terms of what could be the kind of numbers you're looking at for the next six months? Because demand has clearly bottomed out, but currency is still a problem. Inventory is actually lower than where you would like to be. So, given all that, should we expect that the absolute trend in sequential terms may not see any big change in the foreseeable future? Or am I being too pessimistic?

Rakesh Sharma: Frankly, Pramod your guess is as good as mine, because I really don't have a line into the Fed's office or anywhere. I really can't say. We can just sense from the degree of difficulty which our partners have in establishing LC, we can make some sense, a feel, based on how easily the banks are adding confirmations and stuff like that. So, the call-out was based on that. We feel that there are only marginal improvements. So, it will take some time.

Now, it could be two months, it could be three or four months, but hopefully that is the time frame we are talking about. But again, the caveat is that I don't have a logical basis for my answer.

Pramod Kumar: Fair enough, Rakesh. I think in times like this, being hopeful is actually what helps the best, to be honest. So, I kind of totally empathize with you. And the second question is on the electric 3-wheeler business. I think it's great to hear that you're gunning for Chetak at 10,000-mark by June, which is good.

Now, in that context, how would you see the 3-wheeler electric business, say, by the end of FY'24, what kind of run rate would you like to be at? Because you are the market leader, you are the kind of synonym for 3-wheelers in India. So, your actions on electrification have a much larger impact than the company itself. So how would you look at your aspirations for electric 3-wheeler business?

And before I hand over the floor to you, just one clarification on the financing business. This is for Dinesh. Any progress on the financing subsidiary? Yes, those are my questions. Thank you.

Rakesh Sharma: Sure, Pramod, we are very excited about the electric 3-wheeler. You know, when we did our sort of field testing, etcetera, and tried to understand why competition has enjoyed very limited success. If you see, today the electric 3-wheeler gives a very good operating cost advantage over diesel, particularly. And when we said, why have they enjoyed less success, we sort of thought there were a few things which we needed to improve in our 3-wheelers. And we've gone and done that, and we have retested it.

Dispatches are imminent, they're under production. As soon as we get the FAME certification, the dispatches will be through. But in the first three, four months, we want to play it very cool, Pramod, because this is a commercial usage. We have 78% market share. When I go out, I meet a lot of 3-wheeler drivers. I met the union in, for example, Delhi. Why does Delhi release 4,400 permits and only 300 or odd people buy the 3-wheeler from competing brands over a period of two years?

I wanted to understand what the hell is happening. Why is not everyone rushing it? And part of the explanation is that they're waiting for Bajaj, and it sort of puts a big responsibility on us. So therefore, what we want to do is in the first phase, which hopefully will be, let's say, three to four months or so, just do a limited launch, let it roll. We will observe it closely. We will see if there are any niggling issues to resolve for, and then we will start to scale it up city by city.

Our attack is going to be in markets where there are no permits for ICE 3-wheelers, largely in the north and east. We've got a list of towns which we want to invade with the electric 3-wheeler, but the invasion will commence after, you know, we are fully satisfied that our customer is happy. You know, it's not about going there and just putting some products. I'm sure we will be able to sell, but we want to make sure that there are no gremlins in the machine and, you know, we are giving a largely satisfactory experience.

So, I will keep it cool for three to four months. Maybe the next call after the next quarter or the next to that, I would be able to give you a number, seeing that this is the number which we are hoping for. But at this stage, it is premature.

Dinesh Thapar: Very quickly on your question on the financing sum, the application is with the RBI. There is an engagement process that is currently underway. There was a call for information that came to us a couple of days back for which we've made a submission, which would suggest that our application is under processing and probably going through a process of diligence. But that's where it currently stands.

Moderator: Thank you. We'll take the next question from the line of Kapil Singh from Nomura. Please go ahead.

Kapil Singh: Hi, good evening, sir. Congratulations. You've done a very good performance for the quarter. My first question is on the industry mix evolution that you think will happen because we've seen a sharp drop in 100cc segments in the last few years. So, do you think as the market makes recovery, this 100cc segment could make a comeback or do you think otherwise?

Rakesh Sharma: Well, Kapil, you know, the sub-100cc customer has recovered to some extent in the sense that they're not in the negative zone. They're in the positive zone, but just only so, very marginally. It's actually a question for the economists to answer because mostly people have been talking about GDP growth, 6%, 7%, 5.5%. But I think that is very misleading because the real answer for at least a company like ours, 70% of whose customers earn less than INR50,000 per month, it's about the equality of the distribution of that 6%.

And this was severely lopsided when the recovery began in the beginning of the year. But now we are seeing it percolate to the bottom of the pyramid and we are seeing some optimism about continuity of service, about continuity of their incomes, which is resulting in better retail financing penetration. We are seeing all these things. And this is also sparking an interest in up-trading. I think people are, as soon as they see the certainty, they start to say that, okay, I am going to buy one bike. Let me just buy a better value bike. And that is one of the reasons that the 125cc level, we are seeing a greater trend.

So, I feel that in the next at least one year or so, we will continue to see this lopsided distribution of the economic recovery or economic progress in favor of slightly higher salaried and those types of consuming classes, which generally prefer the 125 per segment. And I see a recovery, but much, much lower for the sub-100cc consumers.

Kapil Singh: Okay. Thanks. Because, you know, that will have implications for how we think about the CT brand where numbers have sort of come off, which is not a bad outcome if you see the results. But it could have market share implications. So, the question will be on that?

Rakesh Sharma: You're very right. It is very consciously done because as we've understood, you see, to some extent, that area is quite a red ocean. You've got to bleed if you just want to enjoy the vanity of a number and market share, you know. And we have said that the only way we can attack this market is through, like I said, some meaningful differentiation and not through really price. You can't discount your way on a sustainable basis and enjoy that market, and we could not sort of work on the differentiation strategy till the time this whole segment was reeling under the economic impact of COVID.

Now that it is emerging, it is good news for us because when it is emerging, then people will say, okay, I'll spend a few thousand rupees more and get the ABS bike. That kind of sentiment starts to come. So that is why we are hopeful. But very consciously, most of our innovation is targeted at the top half of the demand pyramid. 80% of it is the top half.

Kapil Singh: Yes. So, I can just, on the price increase, if you could give us some color, how much price increase we have taken in domestic 2-wheelers, 3-wheelers and export markets, and whether there was higher cost incidence in case of e-cars than fuel injection or similar kind of cost and price increase?

Dinesh Thapar: Yes. So, you know, when you look at the impacts, like I mentioned for the current quarter, from a cost standpoint, two parts of it. One is inflation. The other is the OBD-IIA compliance impact. Both put together, I would say given current outlook, should be in the ballpark of anywhere between, let's say closer to about 1.5%. Yes. Our pricing, as we started the quarter, covers about two-thirds of that cost.

Let's see how commodities move. I think the OBD-IIA impact is a crystallized impact because we have committed to it to be compliant. But let's see how inflation on commodities moves, specifically the metals complex, and then we'll decide. But at the moment, that's how it's looking, 1.5% material inflation and pricing looking to be covering two-thirds of that.

Moderator: Thank you, Mr. Singh. May we request that you return to the question queue for follow-up questions? We'll take the next question from the line of Binay Singh from Morgan Stanley. Please go ahead.

Binay Singh: Hi, team. Thanks for the opportunity. Congratulations for good earnings in a very challenging quarter. My first question is on the FAME subsidy. How do you feel life post FAME? We do understand you will get some PLI incentives. If you could quantify some of these as to how do you see life in the electric 2-wheeler space post FAME? The second question, which is also relating electric only, is on the 3-wheeler side. How do you manage the cannibalization risk? How do you ensure that as you ramp up on the electric 3-wheeler side, it sort of has minimal cannibalization risk on your very profitable gasoline and CNG 3-wheeler portfolio? So, these two questions. Thanks.

Rakesh Sharma: So, the first question was around FAME. And, you know, it's very difficult at this point in time. The jury is out whether FAME will be made zero, whether it will be continued or whether there will be a mid-part. Now we have obviously been sensitive to this. And that is the reason why we have been at every point of time whenever we have made back-end investments along with our vendors or front-end investments, we have constantly kept this at the back of our mind that what will happen if FAME goes away? Will we be able to still continue?

And it is with that approach that we have expanded our front-end franchise and the back end. The thing is that a couple of things will happen even if let's say we assume the first worst-case scenario of FAME going away. One is certainly that the industry will consolidate in favor of the stronger players. And of course, Bajaj Auto can be counted as a strong player. And therefore, we'll have a larger share, though of a smaller industry.

Secondly, of course, the industry will get a shock and it will shrink. The market will shrink a little bit. Here I would like to point out that from an operating cost point of view, even without the subsidy, if I factor in the full capital cost, I am not factoring in 28% GST. I am just taking the FAME subsidy. So, I am taking the rest of the stuff, road tax here, there, 5% GST, that will continue. So, if I factor in the prices without any FAME, even after factoring those in, the operating costs compare very favorably with ICE Scooter.

But of course, the consumer will have to deal with the initial shock of a high upfront payment. And that will scare some of the customers and they'll go away. But over a period of time, people recognize the value of it, and they start to return. But really, the backdrop of economy and all is okay. So, after the initial shock, the market should start to return, and the market will return in favor of the stronger players.

So, I would say that if the FAME goes away, which is INR45,000 for a 2-wheeler, there will be an eclipse of the 2-wheeler industry. It will be smaller in favor of the bigger players, and we'll all have to calibrate ourselves. And this is the reason why we are not rushed in with higher volumes. So that was the first part.

The second thing I think you asked was about cannibalization. So, you see, if you take 3-wheeled mobility, we have 78% share of the auto-rickshaw market. But if we take 3-wheeled mobility, 3-wheeled mobility meaning including e-ricks and this, that and the other, then these fellows are almost 45%, 50% of the market today. Just four years back, they were 5%. Today they're 50%. And they have mushroomed because the need for mobility is very high, public transport is poor and the governments, for whatever reason, state governments, RTOs have banned their auto.

So how do the person and how do the lady with children, schools and all that get around? That's how the solution of e-ricks and all suboptimal vehicles has mushroomed. Now with the e-auto or electric version, our hands are not tied behind our backs. We are unclasped and we can go and attack this 50% of the market without any fear of any cannibalization, etcetera, and be a new market with a very good solution, you know, which is time-tested, at least on the vehicle side, time-tested over the years.

So actually, this is, at least for some period of time, it will be adding new segments. As those mature and our presence over there matures, then we will see how to deal with it in the next phase. But in the first phase, I would say half of the market, and most of it is in the northern and eastern towns, you know, the Saharanpur, and the Azamgarh, Jaunpur, Behrampur, these kinds of areas. We will roll in with our e-auto.

Moderator: Thank you. Ladies and gentlemen, we'll take the last question from the line of Amyn Pirani from JP Morgan. Please go ahead.

Amyn Pirani: Yes. Hi. Thanks for the opportunity. And I have to say it's heartening to hear you in such high spirits after a long, long time. My question was actually, again, on the EV side and on FAME, you know, because most of the questions have been answered. The current issue which is going on with the government with regards to the release of the money and the fact that they are trying to figure out whether the norms have been met, where do you think we are right now as an industry?

And even though FAME continues till March 2024, for now, do you think there is a stalemate, and the government may not release the money in a hurry? And are they asking for more things from you and from the industry in general?

Rakesh Sharma: No, I don't think it is in a stalemate. In fact, I must say that there is a nice level of dialogue which is happening. See, from the government's point of view, and we have interacted obviously with a lot of people in the ministry, they definitely see two kinds of players. There are certain kinds of players who have used up the system, who have leveraged the system, and there is another set of players who have gone by the rule book.

So, those are facing issues. I must clarify that we do not have any show cause or any obstruction from the government. Besides just the procedural, it just takes time to recover the money. These set of conditions and rules were designed at a point of time when there was a lot of unknown and it was not clear as to how all this will move, what are the things. So, I think at some point in the government, and there are different parts of the government, there is a parliamentary standing committee, there is a ministry task force, there are the outside agencies who are attempting to simplify the process and that is very important.

So, there are certain aspects of FAME where for genuine reasons we cannot meet the kind of process or the kind of demands which the government had laid down in a period when this was not understood. This is recognized by the government, and it has been solved for. But these things sort of take time because they have to account for both types of players and that is where we are.

So, I would not say it is a stalemate. I do not think that the government is using some backdoor means to thwart FAME claims. We have not at all picked that up. We have seen that there is a certain step-by-step process through which to ensure these reforms, and that is the period we are in actually.

Amyn Pirani: So just to clarify, so credible players like you, the money getting released is just a matter of time and procedure, whereas for some other players there could be a bigger issue. Is that a fair way to think about it?

Rakesh Sharma: Absolutely right. We feel in our case it is just a process and we have in different forum as part of an association and as individually given our contribution as to how we can simplify the process and we have, which will help all the responsible companies. But we are all aware that there are a few people who have either through ignorance, neglect or willful action gone far with the system and they will face the consequences.

Amyn Pirani: Great. Thanks a lot, and all the best, sir.

Rakesh Sharma: Thank you.

Moderato: Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Mr. Anand Newar, Head Investor Relations for closing comments.

Anand Newar: Thank you, Faizan. Thank you everyone for joining us for the call. I know this is quite late, but those who have some additional questions to ask, I am happy to answer this after half an hour from now. Thank you.

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

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