



**“TVS Motors Limited
Q3 FY '23 Post Results Conference Call”**

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EXECUTIVE OFFICER – TVS MOTORS LIMITED
MR. K. GOPALA DESIKAN – CHIEF FINANCIAL
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**MODERATOR: MR. ANNAMALAI JAYARAJ – BATLIVALA AND KARANI
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Moderator: Ladies and gentlemen, good day, and welcome to TVS Motors Limited 3Q FY '23 Post Results Conference Call, hosted by Batlivala and Karani Securities India Private Limited. 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 presentation concludes. Should you need assistance during this 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. Annamalai Jayaraj from Batlivala and Karani Securities India Private Limited. Thank you, and over to you, sir.

Annamalai Jayaraj: Thanks, Vivian. Good evening, everyone. On behalf of B&K Securities, welcome to 3Q FY '23 Post Results Conference Call of TVS Motors Limited. I also take this opportunity to welcome the senior management team of TVS Motors Limited. We have with us today, Mr. K. N. Radhakrishnan, Director and Chief Executive Officer; and Mr. K. Gopala Desikan, Chief Financial Officer.

I will now invite Mr. K. N. Radhakrishnan for the opening remarks to be followed by question-and-answer session. Over to you, sir.

K. N. Radhakrishnan Good evening, and thanks for joining us today. Season's greetings to all of you and your family. Happy New Year 2023. We are delighted to share company's profit after tax. This is the first time we crossed INR 1,000 crores and for the 9 months, it is at INR 1,081 crores. This quarter, the company continued to deliver consistent EBITDA margins despite temporary challenges in the international market.

Quarter after quarter, company is significantly growing in the EV sales volume. During Q1 of this financial year, we sold 8,000 numbers and improved it to 16,000 numbers in Q2. And further, we have improved to 29,000. And every quarter, we have been practically doubling. We will continue this momentum in Q4, thanks to supply chain. And thanks to all of our customers, the demand is ahead of supplies and we hope to continue this momentum in Q4. Financial year '23/'24 will set a tone for the EV transformation, which expanded all India coverage of iQube and exciting new product launches from us.

Now let me go through the Q3 in detail. On sale during this quarter, the company's operating revenue grew by 15% at INR 6,545 crores as against INR 5,706 crores during last year's third quarter. Domestic Market Company sold 6 lakh units of ICE as against 5.79 lakhs during last year's third quarter. Our domestic sales increased by 4%, in line with almost the industry growth. And the international market and all of you know that we did 29,000 of EV during this quarter.

International Market, company sold 2.07 lakhs of 2-wheelers as against 2.53 lakhs. Our international market volume declined by 18%. Industry decline was 23% during the same time.

Total volume was 8.07 lakhs during this quarter as against 8.32 lakhs during last year third quarter. Total sales of 3-wheelers were at the same level of last year, almost 43,000 numbers. On profit, during this quarter, the company registered an EBITDA of INR 659 crores, grew by

16% as against the EBITDA of INR 568 crores of Q3 last year. The company posted an operating EBITDA margin of 10.1% as against 10% during Q3 of last year.

Despite the demand challenges in the international market, the company was able to improve the material cost as a percentage of sales this quarter from 76.3% to 75.5%. This was primarily through the product mix optimization, sustained cost reduction and, of course, commodity softening and the measured price increases, whatever we have taken.

We registered a profit before tax of INR 475 crores as against INR 391 crores of Q3, delivering a growth of 21%. PAT for the quarter is at INR 353 crores, a 22% growth over last year's INR 288 crores. Year-to-date, the company has reported a PBT before exceptional item of INR 1,457 crores as against INR 871 crores of last year, 9 months up to December 2021.

During the 9 months ended '22, the profit after tax is INR 1,081 crores as against last year INR 619 crores. The Board meeting declared today the dividend, an interim dividend of INR 5 per share, absorbing a sum of INR 238 crores for the financial year '22 -'23.

Now on TVS Credit Services, we are extremely happy that the book size is growing, and it is around INR 20,000 crores now. TVS Credit Services portfolio is well diversified, covering tractors, used vehicles, consumer durables, MSME besides 2-wheelers of TVS. The collections are robust, warranting minimum provision.

The PBT for this quarter grew by 75%, and it is at INR 131 crores as against INR 75 crores of Q3 last year. Profit after tax also grew by 75% at INR 98 crores as against INR 56 crores of Q3 last year.

As you know, during this quarter, the company launched TVS Raider SmartXconnect TFT variant, with first-in-class features, such as TFT display, SmartXconnect, voice-assist, Bluetooth connectivity, navigation, ride reports and multiple ride modes. TVS Raider continues to do very well in the market.

We also expanded the global footprint by launching the TVS Experience Centre in Singapore. The new TVS Experience Centre will offer a range of TVS Motor's premium motorcycles, including the flagship model, TVS Apache RR310, for the racing enthusiasts, and the other RTR range of products for the performance seekers.

On EV, we delivered 29,000 resulting in a VAHAN share improvement in quarter-on-quarter achieving now 14.5% market share in December '22. We will continue this momentum with further improved ramp-up of production. In Q4 month of '23, we are focusing on achieving 25,000 numbers with a supply of all supply chain partners. Thanks to all the supply chain partners and most importantly, our customers who have put good faith in our product, and it continues to do extremely well.

During this quarter, 10% of the domestic scooters volume has come from electric vehicles. We expect this will further go up in the coming quarters. Our order funnel of EV is close to 30,000

numbers as of now as I speak. We are confident of crossing more than 1 lakh EV sale in the domestic market during this financial year.

Currently, TVS iQube is available around 200 touch points in India. We'll be expanding that with our better availability. As promised, we will be launching a series of new products on EV, on different customer segments with a complete portfolio of offering between 5 to 25 kilowatts in the next 12 to 18 months. As promised, electric 3-wheeler will be coming shortly.

During the quarter, we entered into a strategic engagement with Amazon India to strengthen electric mobility, electric infrastructure and connected services. As a part of this collaboration, a fleet of electric 2-wheelers and 3-wheelers from TVS Motor will be deployed for Amazon's last-mile deliveries.

In addition, both the companies will work in tandem to examine EV use cases for various Amazon business groups and its network and logistic requirements. I'm pretty confident that we will leverage this engagement between the companies and collaborate in many areas going forward. On Q4, the rabi crop sowing is up. The trend is better in terms of the MSP. I'm very sure that the rural economy will start growing.

With the improved availability of semiconductors, we are expecting further improvement in our premier products production. On international market, the external risks have peaked in Q3. We are seeing small improvements in this Q4. We expect a relatively better economic conditions and recovery of major operating geographies for us.

And as you know, we are significantly focused on improving the retails in the international market, where our billing has been much lower primarily to ease out the working capital in many of the international markets considering the decline in the industry. We are pretty confident that in this quarter, you will see much better results than Q3 in Q4 in IB market. As promised, there will be new product launches from the company, both on ICE and EV space in the coming quarters.

As highlighted, despite very high headwinds during Q3, we were able to deliver EBITDA at 10.1% and as you know, we have doubled our EV during this quarter. We are poised to grow ahead of the industry, both in domestic and international markets, with strong portfolios of our brands, starting from Apache, Raider, Jupiter, NTORQ, and HLX Series and Radeon and TVS King and EV TVS iQube.

We are pretty confident that Q4, you will see very good revenue growth, and this will help us for better operating leverage and the increased premiumization with better supplies of semiconductors are expected during this quarter and our continued focus on cost reduction will lead a sustained EBITDA improvement in the coming quarters. Thank you.

Moderator:

The first question is from the line of Pramod Kumar from UBS.

- Pramod Kumar:** Sir, my first question is -- sorry, before the question, just want to clarify the EV guidance, what you gave for 4Q, sir. Can you just remind me -- remind -- I kind of missed that part, the numbers what you shared on the EV volumes for 4Q?
- K. N. Radhakrishnan:** See, 3Q, we did 29,000 and we have been practically doubling, okay? We are looking at a similar kind of a situation in Q4 because we have very good booking, and we are also expanding the touch points in India and the ramp-up also has been pretty good. So January, February, March, we are setting a target of almost doubling from Q3.
- Pramod Kumar:** The first question is on the gross margin side. We have seen gross margins improve. Our raw material sales as a ratio gets better by almost 70 bps quarter-on-quarter. I do understand there's a bit of a -- there will be headwinds from the EV side here. But if you can help us understand how much of the commodity benefit, which is accrued to the company this year, sir? Or rather, if you can split the gross margin expansion between, say, pricing mix and commodity, if you can help us understand, and mix being negative here because of the EV ramp-up. So just help us understand the breakdown there?
- K. N. Radhakrishnan:** The commodity between Q2 to Q3 is about 0.3. And our material cost reduction also helped. And price increases also helped. And all this has helped. EV is positive margin, but it is not at the company level. So overall, a very clear action plan looking at the cost reduction, higher focus on wherever we were able to appropriately increase the prices, all this has helped us move from 76.2 to 75.5 %.
- Pramod Kumar:** And would you expect commodity benefit to continue to come in for 4Q and the foreseeable future, given the way the steel price and other pressure -- other commodities have moved?
- K. N. Radhakrishnan:** I think commodity is likely to soften only. We are not seeing commodity to go up in Q4.
- Pramod Kumar:** Okay. That's good to hear. And sir, the second question is on the financing arm. Any update there, sir, in terms of as to what will be the timeline there for organization because you did talk about last quarter call that you were in the advanced stage on both, financing arm and even the EV side, if you can just help us understand a bit more on the -- or where are we and on that front? And finally, for Desikan, sir, any update on the cash flow situation for the quarter? How did you perform on the cash flow side?
- K. Gopala Desikan:** No, as far as the fundraise is concerned, a decision taken on that, we are still working. We will come back to you as and when we decide on that. With regard to the cash flow, as we have gone back two years back to the cash and carry, and therefore, the free cash flow is positive from the operations side.
- Pramod Kumar:** Any quantification there or would you like to wait for the full year balance sheet?
- K. Gopala Desikan:** I'd like to come back on the details, Pramod on that. But again, usually, from the operations, we continue to generate positive cash flows.

- K. N. Radhakrishnan:** And most importantly, TVS CS has done extremely well. I think I highlighted the performance of previous year. I think it is very well run. So overall, the PBT has been extremely good and book size is growing. It is almost down INR 20,000 crores, and their portfolio is also very well diversified.
- Moderator:** The next question is from the line of Chandramouli Muthiah from Goldman Sachs.
- Chandramouli Muthiah:** First question is on the ASP improvement quarter-on-quarter. It seems like there's been a 5% Q-o-Q increase in ASP from about INR 71,000 to about INR 74,000 this quarter, may be higher than what most analysts were estimating. So just trying to understand what were the drivers of the higher ASP Q-o-Q just in terms of quantification of price hikes, I mean, with EV mix, domestic versus export, etc.?
- K. N. Radhakrishnan:** The primary reason is, there is a price increase. Also, the product mix, thanks to better supplies of semiconductor, we were able to deliver Apache, we were able to deliver Raider, almost to the demand, while there were some challenges in terms of Apache in the month of September. But overall, we were able to do much better than Q2, that is one reason. Second, as you know, we have done better in terms of the EV. So EV, it's significantly higher priced from almost 16,000, it has gone to almost 30,000. So overall, these are the 2 important reasons.
- Chandramouli Muthiah:** Just as a follow-up. If you could just quantify how much price hike you've taken in 3Q? That would be very helpful. And just also on the Ronin numbers, we don't see that in the SIAM data yet. If you could quantify sort of what are Ronin numbers this quarter? And if they are being reported as part of Apache or as part of some other products at this point?
- K. N. Radhakrishnan:** Ronin is doing extremely well. It has already come to now close to 3,000 per month. And it will slowly and steadily grow because this is a brand which is getting built. So, I think it is a good thing. And in Q4 also, it will do much, much better. So that is a broad indication on Ronin. And on the price increase for the quarter, Q3, just give me a minute, we have taken about 0.7% price increase.
- Chandramouli Muthiah:** My second question is on the FAME II subsidies. So potentially maybe 8 to 10 months out, maybe the industry runs out of FAME II subsidies from the government. So just trying to understand how you're thinking about strategy in terms of would you maybe take a bit of margin hit if the subsidies were not to be extended? Or would you be looking to pass on price hikes in case the subsidies are not being extended?
- K. N. Radhakrishnan:** I think I have highlighted it in my last call also. I think what is most important and what is delighting for us is the customer acceptance of iQube. I think you need to have a very good product and customer acceptance has to be pretty good. When the customer acceptance is good and the volume goes up, please understand the volume can help us to look at the cost, okay? What government has supported us is to have the initial benefit to all the people and it is the government to decide what their decisions on the FAME and other benefits the customer – the government is doing at their best.

As far as we are concerned, I think, we have to focus on the customer, customer pool and making sure that we delight the customer. So that is exactly what we are trying to do. And going forward, volumes will go up. Once we get the volumes up, I am very confident that over a period of time, there will be transformation in cell prices, cell cost, cell chemistry, other costs. Once the top line comes, every other line, we can improve. So that is the way we look at it.

Chandramouli Muthiah: That's helpful, sir. And just lastly, a couple of housekeeping questions. Just trying to understand what is the export revenue and the spares revenue, please?

K. N. Radhakrishnan: You'll have to give me a minute. Export revenue is about INR 1,770 crores. And spare parts is about INR 683 crores.

Moderator: The next question is from the line of Kumar Rakesh from BNP Paribas.

Kumar Rakesh: My first question was around EV targets, which we have set for the fourth quarter of doubling and reaching close to 25,000 monthly run rate, so can you help us understand that how this would be driven? Will this be largely driven by supply side easing and network expansion? Or we should be expecting some model launches and entry into more price points that also leading into higher volume?

K. N. Radhakrishnan: Yes, we have already set 3 variants of iQube. That will come. Plus, we want to also expand the network. Equally, we don't want to – because today, the booking is more than 25,000. I think we have to cut down -- make it available for most of the consumers. And according to me, the biggest important thing is to get the supply chain aligned to deliver this 25,000 because this is the first time we are doing. Also, the supply chain is also supporting us. So it's a combination of -- let me put it this is an integrated effort.

The first thing I would like to thank the customers for the demand and the faith they have put on iQube. That is excellent. I think now we have to look at keeping the network ready, keeping the variance ready and also the supply chain in an integrated way, both the company, the plant integration as well as the supply chain integration and delivering that.

Kumar Rakesh: My second question was around the investment that we have done in this quarter in TVS Credit and the Singapore subsidiary. So can you just give us some sense on how these two subsidiaries are doing in terms of say TVS Credit. Last year, it's credit cost had increased. So how it is going on the credit cost side? And the Singapore subsidiary has been reporting losses for last several years. So, what's the path to improving the financials of that business?

K. N. Radhakrishnan: TVS Credit, I already highlighted to you, it is doing extremely well. And this quarter also done extremely well. And as a year as a whole also is going to deliver excellent results. So TVS Credit – just a minute, give me, the investments, what we have made in this quarter on TVS Credit...

K. Gopala Desikan: INR 150 crores.

K. N. Radhakrishnan: INR 150 crores, okay. And we will definitely continue to invest because this is something, which is doing extremely well for us. And other investment on Singapore, as you know, these

are all investments, which will definitely start yielding significant results in the future, okay? So that is where we are and we are not really worried about the losses, whatever it is making today because we see huge potential from these investments in the future.

Kumar Rakesh: So these investments in Singapore entity would be going into the start-ups and different investments, which we have made?

K. N. Radhakrishnan: Yes.

Moderator: The next question is from the line of Gunjan Prithyani from Bank of America.

Gunjan Prithyani: Just a quick follow-up before I get to my questions is, INR 90 crores investment that you mentioned in the Singapore entity, is this pertaining to Norton? Or is it some other investments altogether?

K. Gopala Desikan: That is not relating Norton. One is on this start-up, we have also acquired some assets relating to the technology, which was invested during this quarter through a subsidiary is one of the reasons.

K. N. Radhakrishnan: These are all part of electric and electric sub-systems.

Gunjan Prithyani: And the loss that we have between consol minus standalone of about, I think, INR 50 crores this quarter. This is largely explained by Norton and the Singapore entity, right? Because I mean, credit business is, of course, you mentioned the numbers are looking good. So do we expect this sort of run rate of INR 50 crore loss to continue on the subsidiaries?

K. N. Radhakrishnan: We can't give you a guidance, but all that what we can do is, these are all investments, which are going to definitely yield results because these are investments in e-cycles. These are investments in super-premium products. And definitely, with the product launches and the market becoming better, we are pretty confident that we have invested in the right segment, right business, and we will start delivering good performance and returns in the future.

Gunjan Prithyani: Moving to my questions. I think the one thing which has been widely spoken about in the press is this whole tightening of regulations on the EV side. One is the subsidies being withdrawn or not being given to few OEMs and the battery standards being tightened. So, could you just help us as to where the iQube stands?

Are we getting the subsidies or these are being accrued and once it is validated, we'll get? And on the battery standard, does it mean any meaningful cost impact for the iQube?

K. N. Radhakrishnan: Yes, we are adhering all these new standards as a company and we proactively work on these areas and on the subsidy, I already highlighted that we want the customers get delighted, and iQube is doing exactly that. And we have launched the three variants and these three variants are doing extremely well in the market, and we want now to leverage the supply chain and also the network to ramp it up to next to higher level. That is exactly the focus.

Of course, once we start ramping up and giving it, we would like to also enter into international markets and there is a series of product launches, which we have planned in the next 4 to 6 quarters. All that will come because iQube is only in one segment. And iQube has got 3 variants now. There are many more product launches planned in the next 4 to 6 quarters.

Gunjan Prithyani: Sir, I'm just asking about currently because I know FAME II will anyways finish F '24 end. But at this juncture, are we getting the subsidies or we are not getting?

K. N. Radhakrishnan: We are.

Gunjan Prithyani: Okay, All right. The second question is on the demand outlook on the domestic business. Now you did sound optimistic on the rural side. But if I just go back to December quarter, we had a pretty strong October and the festive season. But when we look at the trends towards the end of the quarter, it just seemed very weak. So, if you could give us some colour as to why the market was so weak? And how are we seeing on the ground the sentiment from -- just trying to gauge how should we think about the outlook because it's been very patchy, we see good festive and then sudden collapse in the demand?

K. N. Radhakrishnan: See, the Diwali and Puja are two important festivals in Q3. This year, all happened between October and practically, it got ended by the first week of November, okay? And maximum sales happened during that period. And the domestic market looks at the auspicious dates and Dhanteras and all that happen. And this we have seen not only this year, every year.

In many years, what happens is the Diwali comes end of November. So you will see a better November and a better October. This year, everything happened together. And November and December, December is always slow from the point of view of the market. And every year, we have seen that.

But what is most important is when you look at the overall market sentiment and the rural, I think we are able to see slowly things picking up, okay? And with now the improved availability of the semiconductors because now with BS-VI and OBD2, the electronic components and semiconductors are there in every vehicle and the proportion is very high. So any kind of disruption also affects the supply.

So I am confident that Q4, you will see improvement, January, February, March, okay? But we should all appreciate and be peaceful and a little bit careful that the prices, which I have highlighted last 12 quarters with all these regulations and changes, the prices have gone up by almost 40% and the income has not gone up by 40%.

So, we have to be a little bit be patient with now no lockdowns. When I say no lockdowns, I think the current COVID situations in China, the parts of Asia is a little worrisome. But so far, we are positive that the vaccination drive and the other areas, we are not feeling that you will see any more lockdowns in India, but we have to be cautious.

So overall, these changes are going to help India and Indian investments and the infrastructure has gone up substantially. The rural -- especially the agriculture economy is looking good. The

MSPs are increasing, and the self-employed group is slowly started earning money, started investing and looking at 2-wheelers. So, all these are going to help going forward. I think we have to be a little patient in terms of the recovery.

But I'm positive because what we have to look at is quarter-on-quarter, how are we likely to see, I'm positive. And I always believe in keeping lean stocks with the dealers and which we have continued to do. So, we always keep that lean stocks, and we are cash and carry even in the domestic market. So, we are pretty confident.

Gunjan Prithyani:

Just last question, if I can, pitch in is, on the scooter side, you clearly mentioned 10% of the market is now EVs, and we'll continue to see this moving up. I'm just trying to understand, the customer profile is looking at the electric scooter, is this like completely new set of customers who probably was looking at even bikes and is now starting to look at e-scooter because there's a lot more excitement, it is more future ready? Is that sort of customer base you're seeing that they compare it with bikes as well? And is it fair to assume that the shift that you're seeing towards e-scooters is more coming from 125 cc scooters rather than the lower cc ones?

K. N. Radhakrishnan:

These are too early analysis we can do because whatever we have seen is we are present in almost many key cities, and the observation is all about urban. And what we see is initially set of customers who are techie and they want this to be taken as a major change. But going forward, when we start supplying the 25,000 month-after-month for about 6 months, 9 months, we can do this analysis and really find out where are they coming from, what type of shift is happening in the industry, okay?

Today, they want to experience new technology. They want to experience connected. They want to look at the experience of EV. So analysis and coming to inferences using the current data may not be, in my opinion, logical, we have to give some more time.

Moderator:

The next question is from the line of Nitin Arora from Axis Mutual Fund.

Nitin Arora:

Sorry, my questions have been answered.

Moderator:

The next question is from the line of Kapil Singh from Nomura.

Kapil Singh:

Could you talk about geography-wise exports, outlook? How is it looking like? And also what is -- because you mentioned that there is some inventory correction we have undertaken. If you could help us get an idea of how much inventory corrections we have undertaken? Or what is the steady-state run rate that you are seeing currently on export volumes?

K. N. Radhakrishnan:

See, when I say inventory correction, we always believe in a lean inventory even in international. So when the industry is coming down beyond our planned numbers, we have to correct the dispatches. But retails, as I said, are much ahead of our dispatch. So, see if we look at it in Q3, the industry declined by almost 23%, and we declined by almost 18%. So from the market share point of view, we are pretty doing very well.

The major reason we see is there is an inflationary trend in Africa. And we have seen that some portion of it coming from most of the African markets primarily because of what we have seen because of the war and the depreciation in the currency, local currency and also affecting a little bit of disposable income.

Now this Q3 was a little challenging. So we made sure that whatever working capital improvement we do, we also help our distributors to do that. And equally, customer gets the fresh vehicle. That is exactly what we have done. I don't want to give you exact guidance on how much we have reduced stock, etc., because we always believe in that the transit time, that's about 30, 35 days of stock. And depending upon the season we decide.

And we are seeing that slowly this is easing out, okay? Predominant market is Africa. Then of course, we have seen markets like Bangladesh having some challenges. All of you know about Sri Lanka not yet opened up. We have seen Nepal going through some challenges. So overall, there is a bit of industry decline primarily because of macroeconomic factors. And I'm seeing some changes, slow improvement is seen in Q4, expected to see in Q4. And progressively going up next year, you will see a better and better numbers.

Kapil Singh: Maybe if you can tell us the inventory correction phase, is it over or we still need to do that in coming months?

K. N. Radhakrishnan: It is not an inventory correction. That's why I said. See, when you expect certain industry performance and vis-à-vis your stock level, it's a constant journey, okay? We keep looking at it, and we keep looking at it what is the retail required, exactly like what we do even in India. You look at the inventory, if the industry does as per plan then fine. If the industry doesn't do as per plan, you have to correct it according to the industry decline. So this is a constant journey.

Kapil Singh: And sir, second question is on mopeds. We have seen a sort of a very low numbers, maybe I think closer to 15-year low kind of numbers going on currently. So is this industry in a structural decline or how are you thinking about it?

K. N. Radhakrishnan: First, I want to tell you that 2-wheeler industry itself is 10 years back number, okay, because you made a comment about mopeds being the lowest number. So overall, please understand the industry is trying to come back. Now coming back to moped, moped is slow. Equally, the entry-level motorcycles are slow. Actually, moped is doing better than the entry-level motorcycles.

So there is a problem in the affordability of the entry-level products, primarily because slowly now the agriculture is starting to do well. The worries about COVID is slowly going away. Self-employed has started earning money, but please understand everybody has increased prices by 40%. The cost has gone up by 40%.

Now the income has not gone up by 40%. That is exactly the reason I think we should all show a little bit more patience because India has got -- while the infrastructure has improved, India has got still a long, long way to go on the public transportation. So 2-wheeler is the only way.

So I'm pretty confident that if we give some more time, I think things will change because we are coming out of this 2-year lockdown and huge challenges on these cost increases, okay, and allowing a little bit more patience will help us. You will see everything will come back because 2-wheelers are here to stay.

Kapil Singh: And if you could just give us a comment on the EV fundraise as well. We've been hearing about it, and you've also talked about that we are very close to doing that deal. So it's been almost, I guess, a year or more than that since we've been hearing about that from you. So what exactly are the factors that are leading to do...

K. Gopala Desikan: I just want to record here; we have not said that we were close to finalization. Never we said. We are only evaluating various options, that's all we commented.

Kapil Singh: I'm sorry, the line was not very clear. Could you repeat that?

K. N. Radhakrishnan: The point highlighted was we never said that we are close to closing the deal. We said we are evaluating various options, and we will let you know once we are close to the finalization stage. That is what we have said. And that status continues. And once we are closer to the finalization, we will let you know.

Moderator: The next question is from the line of Jinesh Gandhi from Motilal Oswal.

Jinesh Gandhi: Can you first give details about the USD/INR realization in the quarter and operating other income?

K. N. Radhakrishnan: Tell me what exactly you want?

Jinesh Gandhi: Dollar realization?

K. N. Radhakrishnan: Dollar. One second, dollar realization during this quarter is about 80.

Jinesh Gandhi: Okay. And operating other income?

K. N. Radhakrishnan: Other operating income is about INR 90 crores.

Jinesh Gandhi: INR 90 crores. Okay. Second question pertains to the export part. You indicated we declined about 18% on wholesale basis in third quarter. Any indication on how did our retails perform in 3Q? Just to understand how is the trend? Obviously, in retail decline getting arrested in 3Q and now, we are seeing some recovery. Is that the way to look at?

K. N. Radhakrishnan: Our retails are much ahead of our dispatches because we believe in keeping the right stock. So we look at the industry...

Jinesh Gandhi: Sure, sir, I understand that...

K. N. Radhakrishnan: I can't give you, in fact, number country by country, I can't give you. I can give you an overall - I'm just saying that the retails have been much higher than the dispatch.

Jinesh Gandhi: And retails have grown in 3Q, can you confirm that?

K. N. Radhakrishnan: Retails are better than our dispatch.

Jinesh Gandhi: Better than dispatch. Okay. And third question pertains to the finance penetration. So are we seeing further increase in finance penetration from where we were, say, six months back? Are we seeing the financing enabling some bit of absorption of sticker shock?

K. N. Radhakrishnan: The finance penetration slightly better primarily because I think you know season, always people tend to use it more effectively. It has gone up vis-à-vis last year, Q3.

Jinesh Gandhi: Okay. Where are we currently?

K. N. Radhakrishnan: Yes, we're around 60%.

Jinesh Gandhi: 60%. Okay. So that's fairly healthy. Last year, I believe, was about 53%, 54%.

K. N. Radhakrishnan: 54%, 55%, last year.

Jinesh K. Gandhi: And lastly, can you talk about PT Indonesia, how it has been doing? Is the recovery trend continuing there?

K. N. Radhakrishnan: Yes. PT TVS is doing very well in terms of both in terms of the profit, the EBITDA -- just give me a minute. We registered a PBT of almost INR 2 million against last year's INR 0.5 million in Q3.

Jinesh Gandhi: EBITDA, INR 0.5 million in 3Q.

K. N. Radhakrishnan: EBITDA is about, EBITDA -- just a minute. EBITDA is about INR 5.8 million. Sorry. You're asking for the quarter, right? It's about INR 2.6 million. Last year was about INR 1 million.

Jinesh Gandhi: And lastly, can you clarify this 200 touch points, which we have per EVs, represent how many cities coverage we have? How many cities do we still...

K. N. Radhakrishnan: 100, 110, around 100 to 110.

Moderator: The next question is from the line of Hitesh from CLSA.

Hitesh: Sir, I just wanted to understand more of this realization increase because if we factor in the price increase also the shift in electric volumes from 1.6% of sales volumes in '23 to 3.5% in 3Q '23. I believe we can explain only 2% and by export will be another 0.5% or 0.6%. So on the 6% Q-on-Q, if you can please tell us how it is achieved because in the mix also, Apache has gone down if you look at on a Q-on-Q basis. So just wanted to understand what has actually happened on the realization front?

K. N. Radhakrishnan: Realization, I explained to you, I think EV volumes are much higher and price increases we have taken. Last year to this year, if you compare the price increases are much higher because there

were commodity price increases between last year Q3 to this year, Q3, almost 3.7%. Last year, if you're comparing Q3 to Q3. Okay?

Hitesh: No, sir, I'm comparing Q-o-Q. Yes, I'm comparing Q-on-Q.

K. N. Radhakrishnan: I'm saying Q3, you said Q3 to last year, Q3 to this year Q3. So if you look at last year Q3 to this year Q3, there is almost close to 4% increase in the commodity increase. And mostly, we have passed it on.

Hitesh: Yes. No, sir, I was talking about more Q-on-Q because there's a 6% Q-on-Q increase, and I can only explain maybe 3%. So within the portfolio, basically, is there a premiumization within the portfolio also, which is helping us on a Q-on-Q basis?

K. N. Radhakrishnan: It is, if you look at the proportion of Apache, its much better, the Raider is much better, Jupiter 125 is much better, NTORQ is much better. And this trend will continue. And I already highlighted about entry level. Entry level, because the rural is a bit slow, entry level is slow, that is because of the industry issues.

But I think what we need to look at is how do we improve overall numbers and overall, this one, so that you will get not only the gross margin improvement, but you will also get a much higher amortized fixed cost.

Hitesh: Yes. So sir, my another question is on EV volume. Did I hear it right that you sold 29,000 in this quarter, and you're doubling that in the fourth quarter from 29,000?

K. N. Radhakrishnan: Yes. Our plan is to look at how do we double it.

Hitesh: So in one quarter's time or over a period of time?

K. N. Radhakrishnan: In one quarter's time.

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

Amyn Pirani: Sir, on EV, the first question is on the EV launches that you talked about. So can you give us some colour as to when you're thinking of these launches, would it continue to be fixed battery? Or are you also looking at removable battery and battery swapping kind of products? And since you mentioned 5 to 25 kilowatt hour, does it mean that we will only be getting into more premium EV 2-wheelers because the smaller 2-wheeler on the EV side have a smaller battery pack?

K. N. Radhakrishnan: Closer to launch, you will get more information, but I can promise you one thing, we will come up with products, which delight the customer. We focus on the customer usage and the type of partnerships we are now trying to build up. So we will be for the customer, and we will be designing and developing products for the customer. And closer to launch, I can give you all the details, whatever you have.

- Amyr Pirani:** And secondly, on the EV entity that you were planning to form in anticipation of a potential capital infusion externally. My question is that, say, even if this capital infusion happens now or later, would you still be transferring the business to that entity or that is only predetermined on some kind of a capital infusion happening?
- K. N. Radhakrishnan:** I think these are all strategies and those are all discussions, which are going on. I think once we close it, we will share more details with you.
- Moderator:** The next question is from the line of Raghunandhan N. L. from Emkay Global.
- Raghunandhan N. L.:** Sir, on the EV side, we are seeing strong acceptance and that is leading to better volumes. You alluded in your remarks that EVs are profitable. So I just wanted to understand at what level of volumes would the margin gap notably narrow with that of ICE. I mean I'm alluding to the fact that as the scale increases, localization work happens and PLI benefits come in, margins should keep improving. So your thoughts on that?
- K. N. Radhakrishnan:** Absolutely. I want to only borrow whatever you said because the volume is the key. For the volume to happen, I think customers should like the product and there should be pull, and we are extremely thankful to all our customers of our iQube and the variants, whatever we have launched and the opening booking what we have. I think what is most important is we want to ramp up and deliver this to these customers.
- And already, you have seen three variants in three price points. And with new products and the new segments, there will be different price points. I think that is one.
- Second, the volume when it goes up, you will have scale and you will be able to better look at better scale benefits and platforms. And also, going forward, I'm very sure that new technologies will come on the cell, new chemistries will come.
- I think, overall -- and we will have an opportunity to use these EV products into the international market as well. Today, we are not able to get into the international market primarily because we are not able to deliver to the domestic market and the booking. So the moment you are able to get into the international market, you can also look at what kind of appropriate pricing you can do in this product.
- So overall, it will be a strategy of volume, growth, premiumization, varianting, supply chain benefit, cell cost and the chemistry benefit and scale and international markets. So this will be the overall strategy. How each one is going to play? Of course, we are working out internally how is it going to play and how is it going to work out. I think as we progress every quarter, I'll update you. But we are in the right direction. From negative contribution, we have come to positive contribution. And the customer acceptance is extremely good, that is very positive. And we are able to come with the three variants. Now we want to launch our new products.
- Raghunandhan N. L.:** And just a clarification here. Excluding battery, what would be the localization level?

- K. N. Radhakrishnan:** Localization level are pretty good. Even in this one, we make the battery management system. Only cell is what we are getting it from outside. Otherwise, entire battery management system is ours.
- Raghunandhan N. L.:** My second question was on OBD transition. So some of your peers have started launching products, which are OBD2 compliant. How do you see the change happening for TVS over the next two months?
- K. N. Radhakrishnan:** We have also started and we have started supplies, and well ahead of the time, we will be available with OBD2 comply the vehicles in the market.
- Raghunandhan N. L.:** And price change will be approximately INR 1,500?
- K. N. Radhakrishnan:** We will see. We'll see how much is the cost increase, and we will take the decision appropriately.
- Raghunandhan N. L.:** And because we are getting the benefit of -- this relates to export market because we are getting the benefit of USD/INR movement. Any steps we are taking to help demand recovery in exports, any pass-through of benefits in export markets?
- K. N. Radhakrishnan:** See, these -- see, market by market, you have to understand, we have excellent product range in the international market. And as you know, we believe in exciting the customers with excellent range, excellent, attractive quality features. That is what we always believe in. And that is what is going to help this market. Of course, we will invest in marketing. We will invest in looking at which countries there is retail finance availability.
- But this is the time where we have to support the dealer and the distributor with the right level of inventory. That's why you have to constantly look at and recalibrate. But I'm pretty confident these kind of headwinds we have seen in the past also. So these headwinds, we are very confident that we will be able to get over, and you will see the numbers growing.
- Raghunandhan N. L.:** And to Desikan, sir, would you have the net debt number, which if you have it, is it possible to share?
- K. Gopala Desikan:** What was the question?
- Raghunandhan N. L.:** Can you share the net debt number, sir?
- K. N. Radhakrishnan:** Net debt?
- K. Gopala Desikan:** Net debt is around INR 1,200 crores.
- Raghunandhan N. L.:** This is as of December for the standalone business?
- K. Gopala Desikan:** Yes, as of December '22 for the standalone, it is around INR 1,200 crores.
- K. N. Radhakrishnan:** Can we take the last question, please?
- Moderator:** The last question will be from the line of Pramod Amthe from Incred Capital.

- Pramod Amthe:** Sir, this is with regard to the follow-up for the FAME incentive. So EV industry is talking about 100-plus days of receivables. What are your receivables on the FAME incentive side?
- K. N. Radhakrishnan:** See, this is the -- first of all, we are getting FAME incentive, and we are extremely thankful to the government. And in my opinion, I think we have to focus on ramping up and giving it to the customers. I think I'm very sure that this will be -- we will be securing it from the government.
- Pramod Amthe:** Do you mean you don't have any receivables from government?
- K. N. Radhakrishnan:** We'll be secured. There will be some receivables, and this is a journey because every month when we are trying to increase from 10,000 to 12,000 to 15,000 to 20,000, it will keep growing. And there will be cycles of -- we will get it from the government. But what is most important at this point of time is to look at how we are generating more and more demand and supply into the market. And we are able to see government honouring their commitments.
- Pramod Amthe:** The reason to ask the question is if this prolonged and if you're also in the same basket of 100-plus days, do you see the industry moving to a phenomenon where the incentive will be directly credited to the consumer, instead of companies taking it on the balance sheet?
- K. N. Radhakrishnan:** I wanted to only commit one thing, the government is supporting, and we are very happy the way it is done. What is most important is for us to grow the business. And now month after month, this is like a revolving benefit, which comes to the company.
- Pramod Amthe:** And the second one is with regard to the AIS norms for battery. If I heard you right, you comply, it's good hear that you are ahead of the industry on that. What is your -- considering that some of the entry-level 2-wheelers are supposed to take a big jump into these new norms, in that context, do you see an opportunity for you to launch a product at the entry-level scooters and hence, grab this opportunity similar to one of your competitors, Ola, has done that? Or you feel that superior...
- K. N. Radhakrishnan:** First of all, I don't look at competition at all. Competition is only a reference. I always look at customer. And we have a very clear product pipeline plan based on the customer segments and opportunities where we are. And closer to launch, we will share with you what are our plans.
- Moderator:** I now hand the conference over to the management for closing comments.
- K. N. Radhakrishnan:** We look at -- the most important is we are extremely happy and thankful to the EV customers, and we are confident that this quarter, we will be able to ramp up, and we will be able to double our volumes, whatever we have seen in Q3. What is most important for us is we are seeing the retail is becoming better and better in the international market. However, we will very closely monitor because it may require some time to recover in Q4, but we are positive. The direction is positive.
- We are in the domestic market and the international market with a kind of range of products what we have, we are very confident that we will do much better than the industry. The robust revenue growth and better and better premiumization, better mix and the cost reduction initiative



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and the positive improvement in overall the fixed cost, we are definitely confident of leading a sustained EBITDA improvement in Q4. Thank you. Thank you very much.

Moderator:

On behalf of Batlivala & Karani Securities India Private Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.