



“TVS Motor Company Limited
Q4 FY '23 Post Conference Call”

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**MODERATOR: MR. ANNAMALAI JAYARAJ – BATLIVALA AND KARANI
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Moderator: Ladies and gentlemen, good day, and welcome to the TVS Motors Limited 4Q FY '23 Conference Call, hosted by Batlivala & Karani Securities India Pvt Ltd. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, 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 & Karani Securities India Private Limited. Thank you and over to you sir.

Annamalai Jayaraj: Thank you Darwin. Good evening, everyone. On behalf of B&K Securities, welcome to 4Q FY '23 post conference 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; Mr. K. Gopal Desikan, Chief Financial Officer. I will now invite Mr. K N Radhakrishnan for his opening remarks to be followed by question-and-answer session. Over to you, sir.

K. N. Radhakrishnan Good evening, everyone. Extremely happy to share the overall performance of the company for the year '22- '23. Company achieved significant milestone both in terms of revenue and profit. Company posted a revenue of INR26,378 crores and the profit of INR2,003 crores, despite various headwinds, all of you know, we have challenges in significant shortages during the first half of the year, challenges in the international market during the second half of the year. The company crossed 3.5 million units of two-wheeler sales with retail sales growing ahead of the industry, both in domestic and international markets.

We are also pleased to inform you that the company has over 1 lakh delighted EV customers now. With outstanding performance was possible with the best-in-class quality products, superior customer experience and customer delight. Let me now get into more details about the full year numbers and then quarterly results.

In terms of overall, the revenue from operations grew by 27%, last year was INR20,791 crores and this year, INR26,378 crores. Domestic ICE two-wheeler sales numbers grew by 23% against the industry growth rate of 16%. Domestic EV sales dispatches were at 97,000 as against 11,000 during the last year.

Three-wheeler sales remained flat during this year. Profit, the operating EBITDA for the year is higher at 10.1%, compared to 9.4% of last year. During the year, company posted the highest ever PBT with a growth of 61%, INR2,003 crores against last year's INR1,243 crores and profit after tax for the year grew by 67% from INR894 crores to INR1,491 crores.

Now talking about the quarter, revenue from the operations grew by 19% in this quarter, INR6,605 crores during this quarter against INR5,530 crores during last year's fourth quarter. Two-wheeler domestic ICE sales grew by 19% compared to Q4 of last year, as against the industry growth of 4%. Vaahan sales have grown ahead of the industry. Two-wheeler

international market industry declined by 36%, compared to Q4 of last year due to increased inflation, currency depreciation and inadequate currency availability.

The company ensured that the customer retail is higher than the despatches, moderating the stocks with the channel partner. The total two-wheeler ICE sales declined by 2% to last year as against the industry decline of 6%. EV two-wheeler sales are sequentially growing quarter-after-quarter. During this quarter, the sales was at 43,000 as against 29,000 what we have seen in Q3.

Total sales of three-wheelers in this quarter is 29,000 as against 42,000, last year's last quarter number. Quarter EBITDA is at INR680 crores, grown by 22% over Q4 of last year. Continued focus on premiumisation, cost reduction initiative, helped the company to improve EBITDA.

For this quarter, it's higher at 10.3%. PBT for the quarter grew by 47%, INR547 crores as against INR373 crores during Q4 of last year. PBT for the quarter includes a fair valuation gain of INR62 crores on the equity share held by the company. Fair valuation gains shown as other income. PAT for the quarter grew by 49%, at INR410 crores as against last year's INR274 crores.

Now looking at the performance of TVS Credit, it has done extremely well. The book size is now more than INR20,500 crores. Portfolio is well diversified, covering tractors, used vehicles, consumer durables, MSME besides two-wheelers. Overall, for the year, TVS Credit posted a PBT of INR511 crores as against last year's INR151 crores. For the quarter, the PBT was INR140 crores as against INR75 crores, comparison with respect to last year fourth quarter. The collections are robust, warranting minimum provision. PT TVS continued to perform well. For the year, it posted 5 million PBT against 3 million during last year.

Now coming to EV. We have seen a significant change in the EV growth for TVS Motor Company. During the year, domestic EV two-wheeler industry saw robust growth almost 3.1x. The growing sensitivity to climate impact and improved total cost of operation, proposition for accelerated consumer interest and thanks to Government, the FAME II, enhancement, realize, state subsidy and other EV-related infrastructure initiative of the government, reinforced consumer base and the segment.

During Q4, we delivered 43,000 numbers resulting in a share improvement quarter-on-quarter. Presently, our order book is close to 30,000 units. We are present in 235 touch points across 135 cities. We will be launching as promised new series of new products, focusing on different customer segments with a complete portfolio in the range of 5 kilowatts to 25 kilowatts in the next 9 months to 15 months.

Electric three-wheeler, both passenger and cargo are getting ready, will be launched in the upcoming quarter. TVS EV customers presently have access to more than 2,000 charging points with various charging network players. We have partnership with many network players. On iQube AIS156 Phase 2, we have transitioned successfully and the production of April 2023 were constrained due to the changeover and some supply chain challenges, but we are pretty confident that we will start ramping up much faster in May. The order book for TVS iQube continues to be very robust, and we will retain the growth momentum.

Now regarding FAME, we have fully complied with all requirements laid down under the FAME policy documents and CMVR. We would like to reiterate that TVS has fully committed to the Government of India's vision to promote electric mobility and fully supports the government of India initiative to enable faster adoption of electric mobility, development of electric vehicle ecosystem in spirit of Atmanirbhar Bharat, all the electric development happened in-house.

TVSM would like to submit that we are fully committed in building the electric ecosystem in India and always willing to render all necessary cooperation assistance to the Government of India. In order to improve the customer choices on charging time, we gave outward charges from May 2022 when we launched our current variants of TVS iQube. Due to ambiguity in the interpretation, effective 2023 we offer chargers as a part of the overall price of the vehicle, and as we said, as a goodwill gesture and show appreciation to our customers who purchase TVS iQube from the period of May 2022 until April 2023, TVSM will implement the benefit scheme to its customers who have paid over and above the threshold limit fixed by FAME.

Just to clarify, some of the cities, our prices, including chargers are within the threshold limit specified by FAME. In some cities or specific models, we are slightly higher than the threshold limit of FAME. The average refund is about INR1,700 per vehicle. Over the next two weeks to four weeks, company will be reaching out to customers who are eligible for this refund and the overall cost impact is less than INR20 crores.

Our industry outlook, '23-'24, we are expecting the GDP growth to be around 5.5%. Urban recoveries are visible. However, rural recovery is slow, but we are expecting that it may take more time. What is most critical is monsoon. The improving road infrastructure, economic environment with our current mass transit system will drive the demand for mobility for masses. The growing population with young demography will support sustained industry growth especially for two wheelers. The mobility demand is best served by the two-wheeler category, and I am pretty sure that in the medium to long term, India is expected to witness a double digit CAGR on two wheelers.

Majority of the international markets will likely see growth, especially the second half of the year. EV industry will continue to grow rapidly as consumer industries, but with active policy support from the Central and State Governments through PLI, FAME II and specific support from the state policies.

On plans for '23-'24, we will continue to invest in new products, and you will see many new product launches in ICE and EV segment, both in two-wheeler and three-wheeler this year from the company. All of you know that in the recent JD Power syndicated study, TVSM products are rated best in class both in IQS and APEAL. This is the eighth year in succession.

Last two years, if you know, due to pandemic, the study was discontinued. Thanks to all our customers for having full faith in TVS and TVS products. Customers of TVS Raider, TVS Jupiter 125, TVS Ronin are extremely delighted and volumes of these products will further enhance this year both in domestic and international market. International market, we are also having plans to expand in Latin and Middle East.

The existing premium model Apache series continues to maintain growth momentum. Scooter policy consisting of Jupiter 110 and NTORQ will also see further growth. As you know, company delivered over 10% EBITDA during '22-'23. Sharp focus on premium product, material cost reduction, optimization of fixed cost and we are confident that the same intensity drive will continue in '23-'24 and we will further strengthen to deliver better EBITDA in the year '23-'24.

A complete product portfolio, unwavering focus on the consumers, quality, new products with attractive quality and technology with features, the company is confident about outperforming the industry, both in domestic and international market.

Thank you very much.

Moderator: So, may we proceed with the question-and-answer session?

K. N. Radhakrishnan: Yes, please.

Moderator: Thank you. The first question is from the line of Chandramouli Muthiah from Goldman Sachs. Please go ahead.

Chandramouli Muthiah: Hi, good evening and thank you for taking my question. My first question is on iQube. We have done well on electric scooter volumes up almost 40% quarter-on-quarter, but you have spoken of some supply chain shortages in April. So, if you could elaborate a little on this, maybe what the kind of components where there is volatility in supplies? Is it limited to a small group of suppliers and what is giving us more clarity that ramp up is visible in May? That would be helpful.

K. N. Radhakrishnan: There is a small set of suppliers both on the electronic component side and the transition of the AIS was also happening. So, what is good about is more than 30,000 bookings are there and we are strengthening our ramp up. You would have seen this year, January, February, March, month-after-month we were improving, and you will see the momentum from May in terms of better ramp up and better delivery to the customers going forward.

Chandramouli Muthiah: That's helpful. Thank you. My second question is on ICE scooter and premium motorcycles. So, there has been a noticeable improvement in mix of ICE scooters and 125cc plus motorcycles both in domestic and export markets. So, could you share some color on the factors that helped the company achieve this improvement in product mix and is this current mix sustainable in our view? And finally, could you share the exports and spare revenues and the Ronin volumes for this quarter, please?

K. N. Radhakrishnan: Overall, like I said, urban we are seeing very good pickup. I think the challenge is in the rural, but overall, if the monsoon is likely to be better this year, then we will see rural coming back, the sentiments coming back and all of us know that this is the first year with lesser challenges on the semiconductor. In the first quarter, last year, we had serious setbacks.

Now, from the consumer point of view, 125cc segment in the market is doing extremely well. As an industry, I am saying, Raider is very much welcome in the market and customers are

delighted with Raider. Jupiter 125 is also very much liked in the market. NTORQ is in the 125 segment. So, overall, I think that is the place where we have very hit products and we are confident about growing ahead of the industry there.

On premium, Apache continues to do well and Ronin, as you know, it is a special category. It has started doing well in many markets. Average, we are doing about 2000-2500 every month and it will continue to go up in the coming months.

Chandramouli Muthiah: Got it. And just the exports and spares revenues, if you could share those numbers, please?

K. N. Radhakrishnan: Spares revenues, for the quarter is about 667, about 10% of the overall revenue and overall as an year also, INR2,640 crores, about 10%.

Chandramouli Muthiah: And the exports revenues for the quarter?

K. N. Radhakrishnan: Export revenue for the quarter is about INR1,366.

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

K. N. Radhakrishnan: Thank you.

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

Pramod Kumar: Yes, thanks for the opportunity. Sir, first question on the domestic front, if you can talk a bit more about how Raider and Jupiter 125 are doing, because generally the feedback from the market is that the demand continues to be out of supply. And we've seen that on model-wise volumes, Raider has started to do 30,000 plus volumes. Now, I'm just trying to understand, will we see an inflection point here where you will see a step up in capacities for Raider and also for Jupiter 125? And because of the fact that 125cc as a segment is also doing very well. So, if you can make any comments on volume targets or production targets, what do you have for these brands for FY '24, sir?

K. N. Radhakrishnan: See, Raider, when we started, all of you will recollect, we started with 10,000, then we increased to 15, went to 20. Now, last quarter, we have done almost 30 plus. So, we are constantly looking at market demand. What you said is absolutely right. Demand has to be much ahead of the capacity and production so that we are able to fulfill the demand. And we are also getting better capacity utilization. So, Raider, we are constantly reviewing and supporting the market, and Raider is a great brand, both in domestic and international.

And when you look at Jupiter 125 also, it has also grown. Month after month, now average, we are doing about 25,000 plus, and there is a good head room to grow. So, put together, these two products are likely to grow further in the future month. And like I said, industry is also doing extremely well in the 125cc. So, 125cc is a welcome change in the industry and the market, and TVS has got two great brands. And NTORQ is a great brand, as you know, and NTORQ also

has done well. So, between Raider, Jupiter 125, NTORQ, I think company will further strengthen the 125cc.

Pramod Kumar: Sir, any production numbers? Is there an expectation that you can take Raider to 50? Because if I'm not wrong, you're not even doing any marketing or no launch. There's been no launch of any ad campaign for Raider whatsoever, and still it's ramped up to 10% plus of the category.

K. N. Radhakrishnan: We monitor, and we will keep constantly. See, we improved from 10 to 15 to 20 to 25, now it is across 30. So, there is a constant effort to look at, which products are doing well. And we constantly look at -- same way in Jupiter also, we started with 10, then 15, now 20, now 25. So, we will continuously monitor this and start investing behind. And the supply chain is also fully supporting, markets are supporting, customers are supporting. So, that will be the strategy of the company. I don't want to give guidance on the numbers going forward, but we will constantly look at the requirement and the demand and we will keep constantly upgrading them, capacity and production.

Pramod Kumar: Thanks for that. Sir, on EVs, is it a fair understanding that with improving volumes, your EVs should be getting better and better and the drag on the market overall should actually or rather, let me put it this way, are you sensing that breakeven for EVs at the EBITDA level is around the corner for you?

K. N. Radhakrishnan: Yes, I always believe that what is most important is delighting the customer. And I want to thank all the TVS IQube 1 lakh customers who have stood with the company. And if I speak, if there are more than 30,000 customers who have booked, I think that is the credit I would like to give to the product and the customers who have got faith in the company, number one. Number two, we are continuously looking at how do we start increasing the capacity and how do we get the supply chain supporting us fully. Number three, we wanted to also get into international market.

So, the moment the top line starts coming in, every element will start following. And as I said, it is making a positive contribution. Once you grow the top line and once you start getting the positive contribution, that is the time you should start looking at all our costs. This is the investment time, both in the products and in areas of investment in terms of marketing, in terms of people, in terms of every element of that. So, we are extremely happy on the progress of EV. We want to now launch many products in the EV segment, including the three-wheeler. This year is going to be a very important year, 2023-2024, because we will also start looking at some of the international markets. So, this year is going to be another milestone year in the EV segment. I would like to say that.

Pramod Kumar: Sir, I am finally on export. I understand the macro is very dynamic. There is not much of visibility on when things will improve. But can you just make some color on your export market share progress in key markets? Because we do not get the data very easily. Every OEM claims that they are protecting market share. But if you can just help us understand how is your market share trends in key markets in Africa and Latin on both 3-wheelers and 2-wheelers? Any color which you can share on these markets will be really helpful. How are you doing there on the market share trend?

K. N. Radhakrishnan: The principle of the company, we always believe in keeping the right stocks. If you look at domestic, we keep anywhere between 25 to 30 days stock. Same principle we use, plus whatever is the transport time, sea freight time. Then there are distributors, dealers. So, depending upon that we will look at, because from the customer point of view, if you keep around 30 days plus the logistics and distribution time, that will be fine because they will get a fresh value. That is number one.

And we have seen last year the industry degrowing in a significant way, especially in African markets, some of the markets like Bangladesh. We know this area. So, other than some of the ASEAN markets like Indonesia or Philippines, most of the markets, lot of geopolitical challenges and availability of currency devaluation, one or two countries demonetization. So, overall, I think it was going through some difficult times. The retails are much higher than whatever we dispatch because when this decline happens, it happens very sharply. So, immediately we look at maintaining the momentum of retail, customer retail, equally correcting the stock levels at each of the countries. That is why you have seen our dispatches have been moderate. Now, we are a little bit stabilized and I am going forward, month after month, you will see improvement in terms of the dispatches. However, there are markets where we have to closely watch, especially African markets. The recovery we have to closely watch.

But we should understand that in many of these markets, taxi is the mode and 2-wheeler taxis are very, very critical for their livelihood. So, I think that the local markets and the governments will also support that. And if you look at even the three-wheeler, again, the taxi segment is the biggest one. So, overall, I am of the view that we have seen it in the past also. I think we have to be a little bit more cautious. We have to be looking at it month after month and take the plans as we go.

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

Kapil Singh: Good evening, sir. Firstly, I wanted to understand the margin outlook. It is important both on pricing movement in Q4 and beyond that, and also on the cost movement that you saw in Q4 and what do you expect beyond that?

K. N. Radhakrishnan: In Q4, the price increases were almost 0.5%. Equally, we also got the commodity costs little bit soft. That has helped about 90 bps. However, all of you know that the IB international market, we have also moderated our dispatches. Normally, IB turnover will be around INR1800 crores to INR1900 crores. This quarter, it was only INR1300 crores, INR1400 crores, that range. Primarily because we started looking at the customer retail industry and then we started moderating.

Overall, it was a healthy quarter. Plus, all of you know that we have a significant proportion of EV here. Overall, we have managed our raw material cost and price increases well. In my opinion, I think there are opportunities. We look at very closely the commodity cost this year also. As we look at the varianting and also the new products with features, we will review the prices. Constantly, we will review the prices.

- Kapil Singh:** Sir, have there been any price increases post the implementation of OBD-II norms?
- K. N. Radhakrishnan:** There were some price increases we took in April. I think end of March, we took about a 1% price increase for this quarter. Many of the OBD-II changeovers happened in March. Along with that, we took up some prices. This month also, we have taken some marginal prices in certain models. Around 0.8 to 1% kind of price.
- Kapil Singh:** Sir, what is the cost outlook now? Are you seeing any increase in commodity cost or they are stable?
- K. N. Radhakrishnan:** In my opinion, I think commodity cost will be around the same level or slightly softened. Because there is no logic of commodity prices going up. But we have to constantly look at it because if every industry has got their own challenges, there are some requests in certain areas, commodity cost increases. So we have to constantly look at it and see. But I don't think there will be sharp increases in commodities. There may be some moderate increases. That is the way I would put it.
- Kapil Singh:** Secondly, there is a difference in profit between standalone and console. If you could take us through what is really happening there. Because the gap looks like about INR75 crores this quarter. And seen increase slightly from last quarter. So just what is the outlook here? And also in capital investments, last few years have been around INR2000 crores. So, is it a steady run rate to assume for the next one or two years as well?
- K. N. Radhakrishnan:** See, two things. One, whether the subsidies like Norton or SEMG or the GO AG. I think these are all future investments. Maybe SEMG and GO AG. If the situation in Europe, you can't predict the geopolitical challenges what Europe has seen, that has little bit affected SEMG and GO AG. But I am pretty confident that these are all future technology. And Norton, we are definitely investing in engineering, development and supply chain capabilities will be leveraging. And Norton will be a super-premium category. So I am pretty confident that these investments will start yielding very good results going forward.
- On the capex, including our EV plus ICE, we always believe in investing in products. Raider or Jupiter 125 or iQube and you will see many more. Between ICE plus EV will be close to INR900 crores to INR1000 crores.
- Kapil Singh:** And sir investment?
- K. N. Radhakrishnan:** Investments will be to the tune of about INR700 crores.
- Kapil Singh:** Okay. Thank you so much.
- Moderator:** Thank you, the next question is from the line of Gunjan Prithyani from BOA. Please go ahead.
- Gunjan Prithyani:** Yes, Hi. Thanks for taking my question. I just had a follow-up on, couple of questions. If I look at the investments in this quarter. Can you just give us, there's one investment that you've done in TVS Credit, but it's also in this TVS Singapore, what is this for? And if I look at the whole of

F'23, if you can just give us an idea overall how much have we invested in these subs breakup around that as well?

K. N. Radhakrishnan: So, these are investments in SEMG, ION mobility, Norton, GO AG, TVS Digital. So, these are primarily the investments we have made. And I just wanted to only highlight one thing. All of you would have seen TVS Credit performance, PT TVS performance. But for the investment, whatever we made, I don't think these companies would have done so well, okay? You are seeing the overall results of TVS CS, we have posted INR511 crores profit, and the book size is already over INR20,000 crores, then we will grow much, much faster this year going forward. And you are seeing PT TVS, PBT at almost \$5 million for the last year. These are the investments which are helping us today, but they were invested five years, seven years back. And we have invested in people, in terms of products, in technology and capability. That is what is giving us results. And I'm pretty confident that whether it's Norton, SEMG or GO AG definitely, it will all start giving us very good returns going forward. Desikan, do you want to add anything?

K. Gopala Desikan: I tend to agree with you. All these are to be viewed for the investment. Unfortunately, the accounting comparison makes us to write-off, all of these expenses are only incurred on development of technology, investment in technology. And therefore, that should be viewed more as a strategic investment and 100%, it will be rewarded.

K. N. Radhakrishnan: I just want to reiterate to all of you that TVS normally looks at domestic and developing countries. Now with these products, we are already in the developed countries. And we will be entering into many developed countries. So, TVS will become a global brand with these investments and the new products, whatever we are looking at the EV. It is going to be a milestone in terms of building TVS brand globally.

Gunjan Prithyani: And sir, TVS Credit, we have invested almost, I think, INR600 crores this year. I'm just wondering, is this something, there was always a thought process that we could bring in external investors. I mean do we, are we still pursuing it? Or we are okay to internally keep funding this from the standalone balance sheet?

K. Gopala Desikan: As informed earlier, we are exploring various options. And therefore, at an appropriate time, we will definitely come back and inform you all.

Gunjan Prithyani: Okay. Just moving to the other question on EVs, thanks for clarifying all the issues around FAME. If you can just give color on what is happening to the subsidies which have been accrued. Are we starting to get that or is that a really big amount to get worried about? And a broader level question that when FAME starts to run down going by the current timeline of F'24, we still don't have much progress on the PLI. So how do we really bridge the gap in terms of pricing? If you can just talk a little bit around, how should we be thinking about the whole EV scale-up aspiration after FAME runs down. And at the same time, we also need to defend this double-digit EBITDA margin what you all have been guiding for?

K. N. Radhakrishnan: See we are fully committed in building the electric vehicle ecosystem in India and always willing to render all kinds of cooperation and assistance to the government of India. And as you know,

we are complying with all rules and we are confident that the claims will be fulfilled by the government at the earliest. In terms of FAME, any new technology we have seen, Government interventions will be there to build the technology and we have seen that not only today, even in the past. Okay, when exports from India was very, very limited, we have lot of incentives on exports.

I can recollect 14%, 15% kind of an incentive. But today, there are many companies like us, Bajaj, who are doing extremely well in the international market, especially building TVS brand two-wheelers globally. And that is definitely a positive thing. But over a period of time, these incentives have come down. Okay, all of you know that. So, I am of the view that these incentives will help customers to look at this technology. And over a period of time, Government also actively involved with OEMs and understand how to look at it, how to take it forward.

So from the OEM side, what we need to build is scale and customer satisfaction. For that, we need to invest. That is why we are planning a very clear strategy on having a series of products, not only iQube, iQube variants plus many other products which are relevant to various customer segments. Okay, and then increase the scale, that is number one. Number two, when scale comes, we can always look at reducing cost because supply chain will have benefit. Okay, and I am pretty confident that going forward, we will have many variants.

Whatever we do on the two-wheeler space, we will do it in that space. And please understand, this is a great opportunity for somebody like TVS to really get into developed markets. Today we are not able to, there is very good demand from many of our international distributors for iQube. But I want to satisfy the demand in Indian market. But by the end of this year, maybe second quarter, we will start third quarter, we will start international business as well. So, overall, I think we have to look at the profitability of this will come in terms of volume, scale, variants, premiumization, exports, cost reduction.

I think that is the way we have to look at it. And there will be, you know, Government will also seriously look at how to take up FAME or other benefits over a period of time. So I am of the view that thanks to Government, they are taking the right step. I think we will definitely demonstrate how this can become a successful business in terms of TVS EV delivering very good profit in the future.

Gunjan Prithyani: Sure. Thank you, sir. Just last question, when is the electric three-wheeler launch expected? Any timelines around that?

K. N. Radhakrishnan: I think very close to the launch, I will give you more updates. But it is there. In this financial year, it is there.

Gunjan Prithyani: Okay, thank you so much.

Moderator: Thank you. The next question is from the line of Amyn Pirani from JP Morgan. Please go ahead.

Amyn Pirani: Yes, hi, sir. Thanks for the opportunity and congratulations on yet another great quarter. Just going back to the investments bit, sir, on Norton, is there any operational update that you can

provide in terms of whether you have launched the product or what is the timeline of launching the product and, you know, what is the kind of ramp-up that you can assume over the next, say, one to two years? That would help us, give some context to the investments that you are doing there.

K. N. Radhakrishnan: See, we are investing in the engineering side, development side, supply chain side, and the products are getting developed. All of you know when we took over Norton after the acquisition, quite a lot, only the brand was there. You know, practically products were not there. So, it's like building up from practically the zero base, okay, and right talent pool we have now got, we have got capabilities in India. So, there is a lot amount of work which is going on, and I am pretty confident that you will see products coming out of that brand in the superior premium category.

I don't want to give any guideline on the timeline at this point of time, but it will be yet another success story in the history of TVS Motor, I can promise you that.

Amyr Pirani: Okay, sir. So, surely we will look forward to that. I think, you know, the question on investment keeps coming back because if I look at the last two years, despite a very strong operational performance and, you know, record profit, post capex and investments, the free cash flow is negative. So, I think the concern or question that most of us have is that when I look at, FY'24 and potentially FY'25, should we expect positive free cash flow or will we remain in this investment phase, beyond the EV and ICE which we are doing? I think some color there would help us, sir.

K. N. Radhakrishnan: I think the major investment of this has gone into the company which is most successful, which is TVS CS. And TVS CS, you have seen the kind of result, last year was INR151 crores and this year is INR511 crores. And you will see disproportionate growth there, number one. Number two, PT TVS, you have seen how it has scaled up. Yes, Norton and SEMG and GOAG, these are the investments where please understand, I told you about SEMG and GOAG. I think last year to this year, there are unprecedented geopolitical challenges in Europe.

I think it will improve as we go and it is a new area of e-cycle and e-cycles are going to be order of the day. So, when it starts, when the market starts changing, whatever difficulties we have seen in the geopolitical situation, the Europe will also change. So, I am pretty confident that we are investing behind the right technology, right area, right product, making the scale better, making the company to take it to many developed markets which TVS has never done so far.

So, I am pretty confident that you will see these investments starting, yielding very good results and cash flows becoming much positive.

Amyr Pirani: Thank you, sir. And just one last question, if I may. We are already seeing significant success in almost all ICE categories and even in EVs, we are now the number two brand. One category where we are still a bit behind is the 100cc to 110cc motorcycle segment. That category is not growing also but still a large category. So, is there some plan, say in the foreseeable future for some product intervention there and is there a thought process around that?

K. N. Radhakrishnan: We are closely monitoring. I think I agree with you. I think this is a segment where we have our product. And we have a good opportunity there. But please understand, I am pretty happy that many other areas we are practically either number two or coming closer to a number one. Whether it is Apache, whether it is now the Raider or in scooters. I think this gives us a lot of bandwidth to also focus on the entry level commuter motorcycle. I think you will see some response from TVS. I can't disclose what kind of plan of action we have. But definitely one positive thing is the Raider, 125cc, both scooters and motorcycles doing extremely well for us.

And please understand, in the international market, the same taxi segment, HLX is doing one of the best. In the international market, we have crossed already 3 million in HLX. So sometimes you have to be patient. Because sometimes you have to wait for the opportunity and we will do that in the commuter segment in India, especially in the entry level. We won't give up. That I promise you.

Amyr Pirani: Thank you, sir. And all the best for the future as well sir. Thank you.

Moderator: Thank you. We have the next question from the line of Pramod Amthe from InCred Capital. Please go ahead.

Pramod Amthe: So the first question is with regards to the AIS upgrade, what is the extent of cost increase you have incurred? And what changes you have made in the battery system to comply with the norm? And has it been all passed on to the consumer?

K. N. Radhakrishnan: I didn't get you. What was the question?

Pramod Amthe: For the EVs, the upgrade for the new standard for AIS. What is the upgrade made in the batteries and what is the cost increase and has it been completely passed on?

K. N. Radhakrishnan: The new AIS standard we have already implemented. I think you know as per the standard, we are completely proactive company. We have been implementing many of the standards much ahead. We had only one challenge of certain supply chain because there are some modifications required. And you have seen our products whatever is produced in the month of April. We have already given it to the market. And the pricing and cost, I think we will be closely monitoring and our strategy is very simple. Grow the market. Then it will get huge benefits in terms of cost, supply chain cost. And we have to always look at pricing very carefully because this is one area where the volume is very, very critical. The growth is very, very critical. But as I told you, we are at positive margin.

Pramod Amthe: No, the reason I was asking you is considering you are number two. Are you getting the pricing power now to pass on at least the incremental cost on the EV upgrades?

K. N. Radhakrishnan: Once see, if you look at our variants, our variants are priced higher. And the products what we are going to see launching this year, you will see how we are planning to launch. And I may not be able to give you guidance now because we have just one product and a few variants on that.

- Pramod Amthe:** Sir being the number two in the two-wheeler space, how do you see the supply chain improving especially with cells? Are you getting more confidence post the PLI that you will be able to procure them in a year's time and hence, be able to localize better as you go forward? Or you still have to rely substantially on imports next 2, 3 years? As a large player in 2 wheelers.
- K. N. Radhakrishnan:** Absolutely. Volume is critical. Once you have volumes, there are many people who are investing locally, localized the sense you would have seen many companies and we are partnering with many of them. It's a question of volume. Once the volume starts coming up, I'm pretty confident over a period of time, you will see India becoming self-sufficient in many areas. I'm pretty confident. So what is most important is volume. Most important is series of products, most important is customer delight and satisfaction. And Indian brands can do very well in the international market. That's what we have learned in the journey in the international market. It's very, very critical that we invest in the product, we invest in right technology. We invest in the people, the supply chain, okay?
- And over a period of time, I think it will help for India. That's why I said Atmanirbhar Bharat will definitely is design and development and complete supply chain solution.
- Moderator:** Thank you. The next question is from the line of Hitesh from CLSA. Please go ahead.
- Hitesh:** Yes, thank you for taking my question. Sir, my question is also on EVs. We've recently seen price cuts by competition, especially Bajaj Auto and Hero has also taken. So can you give us some sense if you have taken price cut? And is this more of a pass-on of cost reduction as scale increases? Or is it just heightened competitive intensity, what's your view on that?
- K. N. Radhakrishnan:** Normally, I don't want to comment about competition. They have a strategy that I appreciate their strategy. As far as we are concerned, I told you we have now transitioned into the new phase of AIS, and you have seen the variance from the company. There is a very clear product launch plan this year.
- We'll continue to launch products in various segments. And we will also start international business. So we are pretty confident. Okay. whatever strategy we have used in ICE, you will see TVS also looking at in EV.
- Hitesh:** But have you taken any price cuts or not in the EV segment in iQube?
- K. N. Radhakrishnan:** I think we have transitioned, and we have put on the products, and we are looking at new products to be put and variants. And these variants will have better features depending on the customer segment that you will be able to price a little better. It is an opportunity from the point of view of the customer.
- Hitesh:** Just on a follow-up on that. Is it right to say that on gross profit, actually, the company would be making money on EV right now given where the ASP or prices of the scooter, right? If I go by the raw material cost, whereas but there could be EBITDA loss because of the marketing and the employee expenses that you have? Is the understanding correct? I'm not asking for a number...

- K. N. Radhakrishnan:** I don't want to give any guidance on that. I wanted to talk about investments and any technology when you invest. I have given this kind of an answer even before TVS, when we invested or when we went into Indonesia, I think initially, there were challenges, but we believe we'll be staying with them today to 5 million profit in Indonesia. And it will grow much, much ahead.
- Thanks, we stayed there, thanks to the products what we put. So I think these are investments. This should not be looked at as cost. Kind of software engineers who we have hired or electronics there, there on our investments for not only for EV, even for ICE even for future technologies like Flex Fuel.
- So in my view, investments are our future. And you have to go through some initial breed of investments and the returns may be lower there, but they are what is going to help you in the next 3 to 5 years.
- Hitesh:** Sir, I would appreciate if you can give us some sense on the breakeven in the EV business because that will help investors, right? I understand the investment strategy. But in terms of what volumes will you breakeven.
- K. N. Radhakrishnan:** We've seen our overall performance with overall volume, we are still better than EBITDA of 10.3% better than last year of 9.4%. And we have done almost 97,000 of EV, so that you can understand.
- Hitesh:** Sir, most global companies and good quality companies give some guidance on the new vertical line? I understand that you've done well and you're scaling up in the EV segment, but you are becoming a leader now in this space.
- K. N. Radhakrishnan:** Continue to do better in EV. We will continue to do better in the overall EBITDA, continue to grow ahead of the industry. That's guidance I can give you.
- Hitesh:** Ok sir, thank you and all the best.
- Moderator:** The next question is from the line of Aniket Mhatre from HDFC Securities. Please go ahead.
- Aniket Mhatre:** Hello sir, thank you for the opportunity. Sir, just wanted to check in terms of a subsidiary, we were supposed to put the EV business in a subsidiary, where are we in that scenario?
- K. Gopala Desikan:** It still continues to be the parent funding. We will keep you posted. So we do have a subsidiary created for this purpose, but not yet taken any call or decision not transferring the related business and that's the EV business. Once taken, will keep you posted.
- Aniket Mhatre:** Just to understand, the PLI incentive also requires us to put the EV business into a subsidiary. Is the understanding correct?
- K. N. Radhakrishnan:** PLI has got certain guidelines. I don't think there is any specific guidelines that it has to be a separate subsidiary.
- K. Gopala Desikan:** Nothing like that.

- K. N. Radhakrishnan:** Yes.
- Aniket Mhatre:** What is the amount of subsidy that is stuck up with the government so far for us, if you could help us understand that?
- K. N. Radhakrishnan:** The subsidy, like I said, the government is processing that and we are expecting it early as early as possible.
- Aniket Mhatre:** Yes. But could you give us a sense around what is the quantum that is stuck with the comment at the moment?
- K. N. Radhakrishnan:** I'll check that and come back to you.
- Moderator:** The next question is from the line of Kapil Singh from Nomura. Please go ahead.
- Kapil Singh:** Yes, sir, just on the PLI, I wanted to understand when will we start getting the inflow from that? Because is it FY '24? Or will the product get approved in FY '24 and therefore, it will flow from FY '25?
- K. N. Radhakrishnan:** See, PLI, the final discussions are going on. So once we have full clarity, we will let you know. But there is substantial support from the government in this area. Okay. The government is also working actively with many OEMs, and we will let you know once it is concluded.
- Kapil Singh:** Sir, would you use the incentive in PLI to also in pricing the product better for the customer if the same subsidy were to discontinue?
- K. N. Radhakrishnan:** I already told you the subsidies are to support these technologies to the customer, okay? And it is in the interest of the customer and the company. We have first to build scale and volume. Once you have huge volumes and you are present in various segments, that is the time you can also come up with a lot of products, various segments.
- We can price it differently. And in the EV, one of the best advantages of I see is international market, especially developed markets. So, it's a combination of product range. Pricing on the variance with technologies, international market both developing and developed. So I think most importantly, this gives us a huge benefit. And once the volume starts coming up and all of you know the kind of localization which is happening on the supply chain, I think it is going to definitely help EV businesses and brand India.
- So I think we have to wait for a couple of years when the entire ecosystem of supply chain. But for supply chain, they need volume. So that's the reason I always believe in customer satisfaction, customer delight on the product side, which the OEMs have to take lead.
- Second, build the volume, significantly build the volume. Then supply chain will start completely supporting. That is the time we can also discuss more and more localization. Okay, and there will be huge leveraging of costs.
- Kapil Singh:** Sir, any volume level at which you think we will start to see inflection in this thing?

K. N. Radhakrishnan: We have process 25,000 and then we will scale up. That's why I said '23-'24 milestone year. I think we have here present only in 235 touch points in 135 cities, and we can further expand in India, very much interested in the international market on our products.

Most importantly, we have an opportunity to scale up the much higher capacity. And we are also entering into new products and new segments. So I think it's a question of product we have got it right now. We have to get the new products also arrived, tale of the capacity supply chain, then we start looking at international parallel.

So it's going to be a very good year, '23-24 for TVS. Quarter after quarter, we have seen last year, we have scaled up. You will see the same thing in Q1 of this year, Q2 doing better than Q1, Q3 doing better than Q2, that kind of timeline we have put. More than I'll update you every quarter.

Kapil Singh: Sure sir, we look forward to that. Just on the exports also, you can comment, you mentioned that the retail sales are much better than wholesale. Any indication you can give like we have been doing about, let's say, 70,000 to 75,000 in the last couple of months. How much would be the retail sales?

K. N. Radhakrishnan: We have been better than that. I always believe in keeping the right stock in the industry. So we have moderated our dispatch depending upon whatever the retail and you know the industry decline numbers.

We are better than that in terms of retail. So, we always moderate. And going forward, at some point of time, you will see the dispatch numbers becoming better and better.

Kapil Singh: Sir, just trying to understand if you are still correcting inventory or inventory correction phase is over?

K. N. Radhakrishnan: Most of the phase is getting over.

Moderator: Thank you. That was our last question for today, sir. I would now like to hand the conference over to the management for the closing comments.

K. N. Radhakrishnan: So, thank you very much. You have seen '22-'23 highest revenue and highest profit and with our product range and customer quality and the plans on new products with attractive quality and technology and features, both in ICE and EV, and our plans to go for both premium products and focus on the international market, both developing and developed and our initiative with the scale continue cost production. We are pretty confident that we will outperform the industry, both in domestic and international markets and continue to improve our EBITDA. Thank you very much.

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