



“TVS Motor Company Limited Analyst/Investor
Conference Call hosted by Batlivala & Karani
Securities”

September 13, 2022



MANAGEMENT: **MR. K.N. RADHAKRISHNAN – DIRECTOR AND CHIEF
EXECUTIVE OFFICER, TVS MOTOR COMPANY
LIMITED**
**MR. GOPALA DESIKAN – CHIEF FINANCIAL OFFICER,
TVS MOTOR COMPANY LIMITED**

MODERATOR: **MR. JINIT MEHTA – B&K SECURITIES**

- Jinit Mehta:** Hi. Good morning, Mr. Radhakrishnan. This is Jinit Mehta from B&K securities.
- K.N. Radhakrishnan:** Good morning. Sorry for the delay from our side.
- Jinit Mehta:** No issue, sir. Thank you so much for making time, sir, for this call. So, we got the team of Canara Robeco led by Mr. Shridatta Bhandwaldar. He is the Head, Equities. We've got the fund managers, Ms. Ennette Fernandes, Mr. Vishal Mishra. We also have the CIO Offshore, Mr. Abhay Laijawala and Fund Manager Offshore, Mr. Dhruvil Jhaveri. And we have the Sector Specialist, Mr. Bibhishan Jagtap. I have started the recording. So, I will leave this call as a one-on-one call. Thank you so much for taking time out everyone. Over to you, sir.
- Shridatta Bhandwaldar:** Good morning. Thanks a lot, Mr. Radhakrishnan and Mr. Desikan for actually sparing time for us. We have been shareholder for some time with the company and have had participated in group interactions, but probably this is one of the first one on one interaction we are having with you. And really thanks for sparing time. So, the format, we would prefer question and answer. We have certain questions that we have prepared and our team will go through it. For convenience and coordination purpose, would let Bibhishan who is the Sector Analysts ask most of the question because then since this is a virtual meeting, otherwise it will become a chaos in terms of people actually getting kind of cutting each other. So, let me just start at one point and then I'll hand it over to Bibhishan.
- Basically, the drivers for the industry and particularly for us, one of the driver that has played out extremely well for us, and congratulations for that doing such a great work on that side, has been on export side. It has reached a sizable chunk of our business now. But lately given the challenges that we have seen in the exports market, and particularly the larger peer has faced, in fact, more challenges than you. How do you see this piece working out? What are the key challenges in the top three markets there? And do you think that it will persist for a longer period or it will be a 3–6-month phenomenon? So, I'll start there and probably then Bibhishan and can take most of the questions and we will interject whenever it is needed. Thanks.
- K.N. Radhakrishnan:** Thank you, and good morning to all of you. I think what is most important is this is not the first time we are seeing such challenges in developing markets. If you look at while we are doing now the business, there is no Sri Lanka. Sri Lanka used to be one of the best markets for us, okay. We used to sell almost 6,000-7,000 and our market share almost reached 35%. But the economy, the challenges in Sri Lanka. It will come back because they can't be without 2-wheelers in Sri Lanka, but we have to be a little patient. Then if you look at Myanmar, this is another country we had huge opportunity, we started off very well. There are some challenges. And if you look at Iran, Iran is another market where we used to do extremely well. All our Apache and Wego and Rockz from Indonesia used to be extremely well accepted. Now there are some sanctions and challenges. It's not that the customers in these markets are still liking TVS and it will come back. We have to be patient, okay. Now whatever we are going through in African countries, I think we have seen it in the past, okay whenever we have seen the oil prices or inflation or availability of currency, okay.

My hypothesis is only one thing. If there is some problem in one place, I think you have a good product range, maybe couple of months. See, immediately, we will not be able to respond in 1 month or 2 months because there have been a stream of things, and actually still in Nigeria the retailing is happening. It is not that there is zero retail, okay. Whatever you read in the media is it's banned and things like that. Our approach has been always manage the stocks pretty well with the distributor whether it is inside the company with a distributor. So, we have practically stopped dispatching to Nigeria saying that look, you liquidate all the stocks, okay. In couple of months, you will be able to do that through retailing and then we can start. And at that time we will take a measured call. But in the meantime, there are many other markets where we can start a little bit doing higher. For example, we are doing extremely well in DR Congo. We are doing extremely well in Ethiopia. We are doing very well in Tanzania, Uganda.

So, in my view, these challenges, whatever we are talking about, slowness or some challenges in some market without Sri Lanka, Iran, and Myanmar we have reached these numbers of 100,000. So, I'm pretty confident that going forward, I'm not disturbed. What is most important is customer starts disliking you, that is the most important thing. Then you have a problem. Inflation, some local government bans and there are solutions. For example, there are markets where we have given certain facilities to track who is using with our technology we have given in certain markets, and we are also planning to offer that in these markets because these markets, the biggest challenge is they are not able to trace the vehicle, okay. As a part of the retail financing company requirement, we have also put certain telematics so that you can track exactly, and you can also disable the vehicle if the customer doesn't pay on time. So, the same technology can be used. So, I'm not so much worried about the short term ban what you see in Nigeria.

From the country side, please understand, they cannot continue the ban for a longer time because this is the main, main income. They have so many millions of taxi drivers, what will the government do if these people don't have job? So, what they need to look at is what is it they need to do to trace this customers, how they are using it, where they are going, okay. So, I'm pretty confident. We have seen in 3-wheeler also several times ban in these countries but it has now come back. So, I'm pretty confident.

What is most important is consumer confidence on the brand should not go away. And even in Sri Lanka, Myanmar or Iran, our distributors are still there. They take care of the service of the existing vehicles. They're under a little bit of pressure. But our team has been supporting them saying that you focus on service, parts and in that you make profitability working with the customers. That has been our theme. And Sri Lanka has done it, Myanmar has done it, Iran has done it. So, they are all looking forward to the day when the imports will be open.

Gopala Desikan: KNR, also LatAm is one which is doing well, right?

K.N. Radhakrishnan: Yes. LatAm and ASEAN markets are huge opportunities for us. We have started little bit increasing those markets. So, overall, I'm not afraid about the market share growth and we growing ahead of the industry.

Shridatta Bhandwaladar: So, sir, just a sub question on the same thing. Over the last 5 years, you have put in place the entire distribution infrastructure, the branding has happened, the customer associate you with a very good product. When you look at these markets, which are the end markets that you're targeting across ASEAN or Latin American or African, Middle Eastern countries, where do you see the potential of order numbers that we are doing, say 3-5 years down the line? Of course, the organization has to gear up to do that for a medium term and I assume that you would have kind of thought around it in terms of how do you scale up this business and what is the scalability that is possible for? Why I ask this question is basically there are a lot of analysts who keep writing, particularly about Nigerian market that okay, already you guys plus Bajaj plus Chinese guys are like the market is saturated. So, there is not much of scope to grow apart from the organic growth. So, when you look at your current kind of broader numbers on an annual basis, can they double, triple over next 5 years if you actually look at the target markets in terms of scalability and your presence as infrastructure and brand in those respective countries?

K.N. Radhakrishnan: Three things that have happened. I think, the first thing is this was a high penetrated Chinese market with very low prices, okay. Then Bajaj entered and when we entered we said that look, our prices are far, far higher, but we give a better total cost of ownership. For example, if a Chinese product they buy at \$350 or \$400 and usability is 12 months, we said our product can be 3 times better than that. Our durability, reliability, usage, customer convenience and after sale service will help you to use it for three years, but our prices are \$500 or \$550. And we will have a mechanism to make sure that there are proper service centers, parts, oil, everything and they will take care of you. Initially, there was a huge resistance saying that no, we don't have money to buy \$100-\$150 is a huge money. But we still stayed there and a few people bought and then the customers, the people realized that Indian brands are far, far, far, far superior. So, what has happened is the Chinese proportion has come down. Now Indian brands are doing extremely well in Africa, this number 1.

Number 2, you ask about the potential of this market. I can tell you this is the market to be in, okay. They don't have roads, okay. They don't have commuting segment. It is like 30 years, 40 years back India, okay. No roads, no public transport, but a lot of natural wealth. But education levels are very low. And I don't want to use the word who have been exploiting this set of people. They have oil but they don't have refineries, okay. So, I think this is the market with education, many people who are going for education from these countries, coming back, settling down and investments in infrastructure like roads and connectivity, I'm 100% sure you will see a significant, significant proportion of growth in the 2-wheelers. First, it will move from taxi segment. In addition to taxi when you would see commuting segment, you will see motorcycles, you will see scooters, maybe you will also see EV coming in much faster, because at least in the cities, they will say that no, we have to be progressive. Because like India is comparing Europe, I think these people will start comparing countries like India and saying that India can progress like this, why not, okay.

So, I don't want to give you a guidance, but I promise you these are the markets to be in, okay. And we have an excellent product range from HLX series to moped and to scooters to motorcycles to Apache to RR310 from products from Indonesia. And this is going to make a

huge difference. Just to give you a perspective, in the last 4 years, industry CAGR was 9%, we are at 18%. You want to put any mathematics, put the same mathematics for the future, I promise you that.

Shridatta Bhandwaladar: That's a great number to work with, sir.

Bibhishan Jagtap: Yes. Hi, sir. Thanks for that detail answer. Sir, is it possible for you just to give us a sense which are our top 5 markets and how much does Africa and the other major countries contribute to us, especially this Nigeria?

K.N. Radhakrishnan: Overall, Africa is about 50%, okay. I don't want to give a breakup of that how each countries, et cetera et cetera. I think this keeps changing in my view, because every month it keeps changing, okay, because every country is wanting to expand, every country is now investing in infrastructure. So, this is a number which will keep growing, overall as in Africa will keep growing.

Number 2, I think we had Asia market significantly higher, but with no Sri Lanka, now it is Bangladesh, Nepal, okay, even Myanmar is not there. So, Bangladesh and Nepal are the key markets on this side. And if you look at the Middle East, that you have Turkey, then you go back to LatAm, the entire LatAm is a huge opportunity. Then here you look at Indonesia, Malaysia, Philippines, Laos, Cambodia, okay. So, we don't export to China, okay, and only through BMW that our joint partnership we send it to all developed markets today for example, Europe or US or Japan or any other country, it is a K series what we make more than 100,000 vehicles we have given to these customers in these markets. So, that is the overall breakup.

Bibhishan Jagtap: Understood. And sir, which are the markets we are the market leader currently or probably we're number 2, number 3 player, if you can just -- ?

K.N. Radhakrishnan: See, in most of the markets, we are a strong number 2. There are a few markets we are number 1.

Bibhishan Jagtap: Okay. Such as?

K.N. Radhakrishnan: See, there are markets like Ethiopia, Tanzania, Kenya, okay. So, see, the reason I don't want to give number 1, number 2, I think the direction is more important. I don't I play to become number 1, okay. I want to be number 1 is the customer consideration. If you are number 1 from the customer consideration, then we can grow the market ahead of the industry. I have a simple rule, we don't know the denominator which is the industry, we have to be growing faster than the industry.

Bibhishan Jagtap: Sure, sir. Understood. And sir, just a question on the export margins, I mean is it fair to assume that the export margins are slightly higher or better as compared to the domestic market? How one should look at that aspect?

K.N. Radhakrishnan: See, overall margin is what we will look at it. Some markets, certain brands, see, we have the best range starting from moped to scooter to motorcycle to going into motorcycles to Apache, okay, RR310. As a company, we look at overall contribution, overall gross margin because unlike some of my competition, we are now into expanding the business. Three very clear objectives. Number 1 is customers should be delighted with TVS product, durability, reliability, attractive quality, features, service, after sales care, I think that is the first priority. If this is done and you have exciting products, both existing products and new products, with kind of features what we give, then you can grow ahead of the industry, then the top line is assured, okay. I'm a firm believer that if the top line is assured, every line is assured, okay. You can have any number of contribution, even 30% gross margin also. The top line is not there, anything multiplied by the lower number is not going to help you. So, the most important thing, first is customer satisfaction, second is top line because top line is what the distributor, dealer, also the supplier wants. Any business, volume is the most important thing. If the volume is not there, nobody wants to participate with you. In this in this kind of a business you need to have investments not only from you, the suppliers have to invest in. They should have the belief with you. The dealers has to invest, the distributors has to invest, correct. Everybody has to invest in infrastructure, people, sub dealers. So, that is required, the volume is required, the brand is required, okay. When these 2 comes, you have seen our profitability. Then you can work on, okay. Can I sell more of a premium, can I sell more of Ntorq 125 Apache and the kind of products and we started out with an Apache 160 2v, then 4v, then 180, then 200, then 310, we moved like that. Even in Jupiter when we started we had a base version, but we said that that is not going to give me profitability, I need to improve the profitability. So, we do have ZX version, we give as classic version, grande version. And recently we have launched one and all are higher price than competition. So, today, more than 50% of the sales of Jupiter is from those models which are higher on pricing, but we give better features, better attractive qualities to consumers

Bibhishan Jagtap: Understood. Sir, just one last question on the export market. I think the kind of turnaround which we have seen in the Indonesia market, where initial 4-5 years was not good, but the last 2 years, where we have seen a very significant improvement. I think this particular geography or this particular aspect will continue to do well, right? We do not expect any major headwind to come.

K.N. Radhakrishnan: See, in my opinion, we can grow exponentially because acceptance of the products in the markets are extremely good, extremely means extremely good. So, we started out 2000, 3000, now we are hitting every month, almost 10,000. We have now started 3-wheeler. Now this 10,000 can be easily multiplied by 2. And we have a separate platform of products starting from Neo, Rockz, and Daz. So, the benefit is it will multiply and the more the volume, definitely, you know the benefits what it can give to the total company. So, the TVS will do extremely well.

Bibhishan Jagtap: Sure, thanks. Sir, congratulations on the TVS Ronin. I've personally rode that vehicle, it's truly amazing. I just wanted to understand, I mean, what is the product positioning of that particular model? Is it more of a retro cruiser tool? I didn't get that. If you can just help me understand the product positioning of that one particular aspect.

K.N. Radhakrishnan: You would have heard me saying, it is a modern retro vehicle, okay. It is non-competing because many people ask me, are you competing with RE, no. See, we look at Apache. Apache is standing for really the racing enthusiast. When we started the journey, many people said no, no, no, India you don't have racing enthusiasts, but we said, it will come. Thanks to the government, you look at the highways. I can tell you if you come here on a Saturday Sunday, there are Apache Clubs, 100-150 people traveling together, okay. Whatever see, India, the aspiration levels are very high. Even my moped customer when he comes in to buy a moped, firstly he'll go around the Apache 310, okay. Aspirationally very high, but poor fellow, he doesn't have money. And many times I ask them, why you do walk up, no, no, I will buy this for my son, okay. But I can't afford, I will buy only this one. Same way I have seen, if there is a stretch possible, they will buy the Rider 125, okay, saying that oh, it is little bit aspirational. So, one thing I have seen in India is aspiration levels are very, very high, okay. Then we found that there are many customers who think Apache is a modern retro, they don't know. They come, they look at and racing and then say oh, this is there, then I will use. And I like the bay, I like this is modern. It is not different. It is not RE, it is completely different.

Bibhishan Jagtap: Okay. So, sir, what is the monthly volume one can expect from this one particular product?

K.N. Radhakrishnan: See, this is one model where it can grow, okay. Currently, we are looking at 5,000 this month, but I want to keep the demand ahead of supplies, okay. These are brands where you have to be a little bit patient. But if you ask me, India is a great country, even you get a 0.001 fraction of the set of customers, it will be more than 10,000 per month

Bibhishan Jagtap: Right. So, I think 5,000 number is a very good set of numbers which we are targeting. So, secondly, if you just look at our product portfolio like Apache, Raider, and talk to some extent, I think last 4 or 5 months, we have seen that because of the chip shortage, there has been a significant impact. I think this is what you have been guiding even in a con call also. So, what is the situation now?

K.N. Radhakrishnan: Apache lost quite a bit in April, May June, and Raider also lost quite a bit in April, May and June. But thanks to our team, we were able to develop alternates and now Raider is fully back, Apache is fully back. I don't think there will be any problem in the season. Now this month and next month, you will see very good numbers. Now this numbers can go up, that I promise you, but I'm not in a hurry. Unlike some of my competitors, I don't dump. I don't want to keep any of my dealer more than 25 days stock. In fact, I tell them let us use the principles of OR and say zero loss of retail, tell me what is the minimum stock you have to carry? And how will rotate? Whether it is my working capital, it's dealers working capital, it's working capital here. And from the customer point of view, yesterday, I was talking to one of my competitor, he says 75 days stock this year. If you keep 75 days stock, then the customer will never get a fresh product.

Bibhishan Jagtap: Correct. Sir, what is the sense you're getting on the festive season by the way? Do you expect that this year's festive season would be much, much better compared to last year?

- K.N. Radhakrishnan:** I'm pretty confident because people are fed up. You go anywhere, people are fed up about this lockdowns and I don't think people are even testing now. Even if fever is there, people are not even testing. Fortunately, for us, we are all vaccinated, booster has been given. And one good news is even in the last, let us say 60 days, the number of cases where we test rigorously the COVID, none of them were hospitalized, zero hospitalization. So, I think I'm pretty confident that this year season starting end of this month to Diwali will be excellent.
- Bibhishan Jagtap:** Okay. So, just moving to our, if I just look at the gross margin, the kind of improvement which we have seen or even the last 2 years, the margin trajectory has been really amazing. I just want to understand is there any drop in our, let's say, input content, what used to be earlier, let's say, 4 or 5 years back versus now? If you can just help me on that line.
- K.N. Radhakrishnan:** Yes, input used to be 24%, I'm saying from my memory, now it's around 7%.
- Bibhishan Jagtap:** Okay. So, 24%, this was in which year or which time you're talking about?
- K.N. Radhakrishnan:** I think it was 19'-'20 if my memory is right, '19-'20. We've taken a lot of initiatives, including you will be delighted to see the biggest alloy wheel supplier in China, we brought them to set up a plant here in India.
- Gopala Desikan:** A small correction, 2020, I mean, he meant '2020.
- Bibhishan Jagtap:** So, in FY 20, it was about, let's say 19% versus now it is at about 7%.
- K.N. Radhakrishnan:** 24%, now is it 7%.
- Bibhishan Jagtap:** Okay, that's great. And any scope to further reduce that incoming time?
- K.N. Radhakrishnan:** See, you can reduce, but please understand we can't be without input. Certain things are not available in India, certain technologies are yet to develop here. So, we have to look at. Import is not a bad word here. Import is not bad here, okay. If many of my other export people, they start looking at local content and they say, we also have to be self-sufficient, things will not work. So, I think we have to import those things which is required. This predominantly this import reduction is from China.
- Bibhishan Jagtap:** Okay. Sir, if I just look at the, let's say Q2 FY '23 commodity prices, I think they are almost 20% down. And if I just look at our EBITDA margin, which has been in the range of, let's say, 10%, we have not dropped that. How do you see that our margin benefit will probably flow into our P&L in coming time? Do you expect that the commodity prices reduction will help us in second half of probably in FY '24?
- K.N. Radhakrishnan:** See, commodity price increase or reduction, I have always looked at in a stable way. How do you price it? How do you price it in relation to the competition? How do you price it from the customer point of view? Okay. Honestly, I'll tell you commodity is not in our hands, okay. There

may be some 3 months lag here and there between certain suppliers and this one. If you get some 3 months benefit, you will also have some challenges going forward. So, life is like that, but what is most important is what are the strategies we are trying to look at to improve let us say from 10% going forward. I think continue to create brands which can sell high volumes, okay. Continue to focus on the premium brands, okay, premium brands like Apache, Ntorq, and now we have Ronin. So, can I take up Ronin to the next level. Systematically, quarter after quarter how would you build it. So, what is most important is premium proportion is around 30%, 32% of our sales, can it go up? Number 2 exports. Your colleague asked a question, average from 100,000, can we go up? And it will go up. I'm pretty confident that it will go up. You know about the 3-wheeler. Practically, in many markets, we are number 1 in the export market, our market share is almost close to 40%. There is still opportunity to grow our 3-wheeler. So, when we look at volume side, earlier we had many products, we are single source. Now, we are also trying to look at second source because when you expand to a second source there is a good opportunity to look at a little bit better negotiation. And we are also now looking at seriously what our platforms can be common, what commonization we can do because the moment you do commonization, you can get to gain benefits. And you would have seen a lot of initiatives without reducing the value, without reducing the quality what kind of innovation you can do on the design. So, I think these things will continue to focus on material costs and equally we always looked at an opportunity to increase prices. For example, products like Raider or products like Apache or products like Jupiter 125 or Ntorq, I told you about the very ending strategy. So, there will be base model, but we will have variants. See today, when a customer walks in, if he is a retail finance customer, the moment he sees the base version and he says the upgraded version or the Limited Edition, he will say that I have to pay another Rs. 100, and 36 months it's Rs. 150, he will move immediately to that because every customer should feel that he is getting a much higher value when he pays another Rs. 3000. So, this strategy of premiumization focusing on very systematic cost reduction will continue. Second, you would have seen our marketing costs.

Bibhishan Jagtap: Yes, absolutely. I was just coming to that.

K.N. Radhakrishnan: Systematically, it is possible to cut down and all our employee cost related today, it is full investments in electronics. We are looking at software. We are putting at extra people on the digital side. So, all investments are on the EV, okay. I see no additional people. Actually, we are trying to move many people from ICE to EV, train them, make them work on the EV side. So, we are working as the EV is 100%. That's why in next 8-12 quarters, you will see many product launches from the company, okay, because that is what is very, very critical at this point of time. So, ICE, we know what to do, which products, what kind of interventions, which markets, that will continue, but all of us, we will invest in more and more on the EV side. I think some of you can visit, come and see the facility, then you will realize, okay, because that is the focus that we have to look at.

Bibhishan Jagtap: Sure. Understood. Sir, I question on this advertisement and marketing expenses. if I just look at the annual numbers, I think even in absolute numbers also the number has reduced. Is there anything we changed on the advertising and marketing expenses? Have we moved to the online advertisement? Have you done anything like that? That's the reason why we are seeing that?

- K.N. Radhakrishnan:** Few brands we have completely moved to digital, okay, and that that focus will be there. I'm not saying there won't be any advertisement in the TV or newspaper, okay, don't get me wrong, but progressively we will move more and more to the digital, number 1. It's not that digital is free, okay. But as the customer requires, we will look at it. We are not afraid of investing behind the brand, okay. Good times, bad times, we will invest behind product, we will invest behind brand because that is what is going to give next 4 quarters, next 8 quarters.
- Bibhishan Jagtap:** Absolutely. Sir, just one more question on the RM cost. I think even though if I look at our, let's say, purchases, purchase of goods from the related party transactions which earlier used to be about let's say 15%, which has now further come down to about 11%. Is there any scope to further reduce that? Can we expect that more cost benefits will help us to improve our gross profit margin?
- K.N. Radhakrishnan:** See, I told you, every supplier has invested. The next edition of VCU we are giving to a new supplier. So, when you give to the new supplier, you will negotiate better. Then you can put the pressure on the current supplier saying that look friend, the other guy is giving me so much of benefit, you also review your prices. So, this helps, definitely this helps. I will not be able to put a number because I'm not so much worried about shaking up the supplier, rather work with the supplier, mission the win-win works as the supplier and the company, we have to win, they have to win, we have to win. Dealer, distributor, they have to win, we have to win. If there is a mutual win-win, that relationship will be long term. If it is win-lose, it will not last.
- Bibhishan Jagtap:** Okay, understood. So, just coming to the EV part, especially the TVS IQ, I think we have seen a very significant ramp up. I was truly amazed when I was looking at the numbers on a monthly basis. And I think you were also very positive and talking about that we might even cross, let's say, 10,000 kind of number by July.
- K.N. Radhakrishnan:** Really, really looking forward to 10,000. The good news is the demand is there. And another good news is now this semiconductor companies have understood that we are very serious. So, they visited us, they have seen our ramp up plan, they have seen our facilities and they say, yes, we will help you, we will support you. So, the support has started, so you will see the 10,000 soon.
- Bibhishan Jagtap:** Okay. So, sir, what is our current capacity by the way, now for the TVS iQube on a monthly basis?
- K.N. Radhakrishnan:** Yes, current capacity is more than 10,000.
- Bibhishan Jagtap:** Okay. And sir, how one we can see the upcoming product launches on the EV side. If I just leave the TVS iQube, can we expect the more launches on the low speed?
- K.N. Radhakrishnan:** You will see more launches. Closer to launch, I will tell you the timing because I can't really tell you the timing, but you will see more launches in this financial year.

Bibhishan Jagtap: Okay. Understood. So, just 1 question on the EV side. I think largely when I look at the industry scenario, I think most of the OEMs currently now introducing products on a high speed side right, there is high speed, mid speed even on the low speed side. And when I look at our probably strategy or most of the OEM strategy, currently they are launching products on a high speed side. You take even, let's say, Bajaj to some extent, everyone wants to capture that premium pie first. But there are certain OEMs or certain Chinese companies currently who are now present in the low speeds and their numbers are also increasing significantly. When I correlated that number with moped, I think the kind of number which we earlier used to do that, unfortunately, because of the cost of ownership has overall increased, macro factors have not been that great for the commuter segment. Are we seeing that those customers are now moving towards the low speed EVs? Why moped sales are not increasing? If you can just throw some light and if you can just guide us on these aspects that will be great help. Again the moped is an amazing product, no doubt about that.

K.N. Radhakrishnan: See, first, I want to answer you on the EV side. In my opinion what is going to be sustainable from the customer's point of view, forget about I'm answering from KNR TVS Motor, okay. Purely, purely look at from a customer side. Today, iQube customers when I ask them, why are you buying iQube, they say simply KNR, this is like Jupiter. This is like any good scooter from TVS. It can carry husband, wife, 2 children, some bags. So, all put together, whatever I do in iQube, I'm able to do it with this. Number 2, it can go good roads, bad roads, anytime, flood times, no issue. It can take any kind of flyover of any gradient, no issue, okay. I'll pause here. You asked the same question to the low speed and the medium speed of the kit assemblies which are supplied by the customers. You ask them and you realize yourself, will it be sustainable?

Bibhishan Jagtap: No, they don't have that kind of product quality, those products are not that durable.

K.N. Radhakrishnan: And Indian customers, there are customers of moped who buy and give it to their grandson also. So, these customers, according to me will feel cheated. It's a question of 1 year, 1.5 years, okay. So, to me, you have to stand in for the brand and the quality and you have to focus on the customer. TVS is very, very serious about resonating the Aatmanirbhar Bharat. We design, develop, everything. And we partner certain things with our suppliers, okay, we don't have any hesitation. If you look at iQube, the motors, the controllers, the BMS system, the ECU, everything has been designed and some of them co-created with the supplier, some we do it ourselves. Why? Because this is an investment for building a business of EV for the future. We can also buy some kits from others and assemble and give it, okay, but it may satisfy the quality standards of TVS, it may not stand in for the durability, reliability what we are standing for, this is number 1. Number 2, from the customer side, if they don't get, then they will reject it soon, okay.

Now coming to moped, I think let us look at last 3 years because we see sometimes the cause and effect we put based on certain things. My moped customer is using it's a mini like commercial vehicle. He carries 150 kilos of load, okay. He carries milk. Predominantly, moped is in the utility category, it is not in the commuting category. There may be a few more mopeds which are used by women, teachers for convenience because Indian dress system for women,

very convenient. And no gears and big wheel so they can comfortably ride a moped. I'm saying 98% is utility. The purpose of this utility is very clearly they wanted to earn money, okay, I always say that the best CSR activity in India is a moped. Every day, they earn Rs. 100, Rs. 150, they run the family with that. But if you look at 2020 March to 24 months, they closed down everything, practically they have closed down everything because of the lockdown, no steady income. When there is no steady income, the bottom of the pyramid thinking is first, I have to make sure that my family survives, okay. The second is education of my children because I am a farmer, I am self-employed, I don't want my children to be like that, okay. Then only he starts thinking about buying a new moped or replacing my old moped, okay. Little statistics, I'll tell you, not only moped because everybody looks at the moped numbers. Moped has declined in the last 8 quarters 38%. The best selling motorcycle, HF of Hero has declined at the same period 50%. I hope it tells you some story, okay. If it is because of the EV kit, etc., HF will not come down by 50%. So, I always look at the cost and effect and look at, poor fellow doesn't have money here, poor fellow doesn't have job. The reason, see, this is the first year where we have seen a marriage season, April, May, June. There is slowly now the confidence is coming. People are going out, people are getting some job. People are able to do some plumbing job, repair job, delivery. I think slowly the economy is picking up. But unfortunately, what has happened is thanks to BSVI, thanks to third party insurance, thanks to the raw material, the prices have been going up, his salary has not gone up so much. When I meet people, I'm a firm believer that India's 2-wheeler has to come back. My hypothesis is very simple. Public transport is not there. Very good roads are there. People mobility has gone up. India is a young country, rural 50%, self-employed 50%. The only and only solution is 2-wheeler. So, it has to come back to the 10% plus CAGR. Now why it is not there? 36 months or close to 40 months we have seen BSIII to BSIV changeover, GST, a smartphone is 18%, yes, this is 28%, okay. Then we saw the safety standards, okay, AHO, okay. India is full of sun friend, day and night we have sun. But we have adopted AHO, then safety standards, I'm not against anything, then BSIV to BSVI, hop, step and jump, third party insurance. So, if you look at in the 36 months, the prices have gone up by more than 45%. Have the income gone up by that? Have the saving gone up by that? So, give some time, it will come back. Promise, it will come back.

Shridatta Bhandwaldar: Shridatta here. Just to conclude on EV. Earlier, you were speaking about EV and there was one question which was pending. I mean you said that demand is not a challenge clearly, that's the indication you're getting. So, when I look at that 6,000 to 10,000 to 20,000 or 30,000, whatever those numbers go to over next 1-2 year, how is the distribution strategy. I mean, we don't find the product present in even some of the metros. So, is it more of a supply chain challenge as of now because you said that there is no demand challenge? And how are you trying to resolve that supply chain challenges? Is it that the entire thing has to be done in-house? How much of value addition is happening in-house in EV side? I think that entire supply chain value addition internally and how do you plan to scale up the distribution on EV side, basically, the presence of EV in your existing distribution? It would be interesting to get your view on that. Thanks.

K.N. Radhakrishnan: See, the iQube, most importantly whatever I said is getting the customers like the product, that's what we have done with few cities. Now we are there. From 33 cities now we have gone to 88. But are we there in all India? No, definitely not. Okay. Now, we have close to booking of almost

25,000 vehicles, but I don't want to take any more booking without delivery. Now from the delivery side, the semiconductor suppliers are fully supporting us. But please understand even for semiconductor again, let us look at what has happened in the semiconductor industry. All of you know that the auto grade what is used in the automobiles are the best grade, highest grade in terms of quality and standards and safety. During this pandemic, everybody closed down, okay, almost 3 months. Then pick 3 companies, Renesas in Japan, Renesas you know they had the fire accident. TA in US you know, they had the biggest flood, okay. And one more company in Europe, they also had flood. These are unheard, okay. So, weak capacities destroyed almost 60 days, 70 days. While this was happening, everybody was on teams, like us Zoom, smartphone, sitting at home, suddenly you saw disproportionate growth in the consumer durables and smartphone and connectivity and all this industry, okay. So, today every company is talking about 52 weeks of planning. We have planned 52 weeks back, that is why I'm getting the confidence. So, month after month, you will see that and you will see things improving. And one more most important thing is the logistics times have gone up substantially now. What used to come in 30 days comes in 60 days. So, due to some reason, if the match, the materials are not available, and many of the flights you can't reschedule because all flights are full. So, many things are good news, but many things, it also gives us a little bit of challenge. So, we have to systematically now look at how do we go month after month to 10,000, then to go to 15,000, then go to 20,000, then to go to 25,000, that is the focus we are in.

Shridatta Bhandwaladar: Thanks. One part is still unanswered, how much of the value addition is happening internally at organization? I mean how much of integration has happened?

K.N. Radhakrishnan: See, many of this PCBs, etc., we buy from outside, none of them are manufactured inside. The design for example of the BMS system or controllers or some of the motors along with the supplier, like that we have certain things we completely design and developed; certain things we design, manufactured by the supplier; certain things completely supplier what we buy, okay. For example in the in new iQube, the VCU, it is completely designed and manufactured by our supplier in India, okay. So, it's a combination of make, make and buy and completely buy. This strategy will continue even for future. But what is most important is designing, most important is designing in-house because that is what is going to give us the biggest cutting edge of the future.

Shridatta Bhandwaladar: Sure, thanks.

Bibhishan Jagtap: Sir, one more I think concern area or you know this is something which I really want to understand is more on the investments which we did on the EV side or even in subsidiary side. So, can you just help me understand what was the thesis behind investing in Go AG company, it's a Swiss-based company who is majorly into the e-bikes. Again, they are not completely a 2-wheeler motorcycle company, it's e-bike only. What was the thought process behind investing in that company, sir?

K.N. Radhakrishnan: You know our complete range and you know our EV strategy in India. Norton, you know, it is really, really the premium. So, when we look at EV and Norton and some other products, what

we are making in the K series, we can go to all the developed markets. So, one of the thinking process was even in the developed markets, e-bikes or e-cycles are becoming very, very predominant. So, there are 2 approaches, you design your own e-cycle and then start producing and then going to manufacturer and look at the customer. So, we thought it is best way to look at EGO or SEMG, who have got omni channel and they have certain products and understand the consumer in Europe because there is a huge market and it is projected that it will get into a CAGR of almost 18%, 20% year after year in the e-cycle segment. So, in order to save time, we felt that it is best to invest in these companies, and really understand what profile, what type of customer, what kind of demography, what are the usages, okay, and at some point of time we can look at it how do we scale up, okay, for different, different countries. So, we can leverage our design and design capability and also look at what all things we can do from India. So, at this point of time, it is completely, completely the kind of products just ahead of the product range what we have. And this is one thing which is likely to change in the future, e-cycles. That is the thought process.

Bibhishan Jagtap: Okay. Understood. So, cycles as you know, it's a completely different product what we generally manufacture, but is it about the distribution, is it about the other capability, which we'll get it?

K.N. Radhakrishnan: We did basically to understand the consumer first in Europe because so far we have never been in a developed market, never. See, even the exports we are doing is almost 70, 75 markets are all developing markets, okay. Of course, we have sold through BMW, the product is 100,000 globally, that is true BMW brands. So, we have an understanding of what are our capabilities. But if you look at European markets where there is a set of customers who are buying this e-cycles, what is the profile, what is the demography, what is the usage, what are the distribution system. So, the best way to go quickly into the market is to invest in these kind of companies and then understand. And please understand, SEMG is a profitable company.

Participant: Sorry, Bibhishan, just to continue on this, so from a longer-term perspective, the strategy is to push these cycles as a product to other developed markets and maybe even in some developing markets or is it that we would be looking at leveraging our EV and the premium bikes after understanding the customers we would like to push this into the developed markets?

K.N. Radhakrishnan: Both, because see, one thing about iQube or any EV vehicles, global market we can go, absolutely no problem. And the K series, whatever the RR310 and above, we can go to every market. Today, we are in the developing market, we can go to the developed markets, okay. So, we will have EV products from India. We will have the higher series products, which we have partnered with BMW. We have the e-cycle. So, we will have a portfolio of products, okay, which we can leverage for all the developed markets. Definitely, we can look at developed markets and we can even look at for the developing markets as well. These e-cycles, once we understand then we can have it even in the developing markets also. So, it is a very clear understanding of how to and what kind of products and what kind of customer segments. See, please understand one thing, the bikes what we are selling for Africa is completely different, it's not sold in India. So, you need to understand. The strength of TVS is we go to the market, we understand the consumer. Even in India I don't have to explain to you, we South Indians we want dosa and idli

in the morning, okay. You go to North, they want parotta and channa in the morning. and somebody in Gujarat wants to start with sweet, okay. And I have seen, Apache only black color will sell in Kerala, only red color will sell in West Bengal. So, I think we have to resonate with the customer experience, customer requirements. So, it is very, very important that you have the product range, understand the consumer usage, then it is a very clear metrics of which product, which market, what kind of strategy we can have.

Shridatta Bhandwaldar: Shridatta here. Again, just to continue and this has been one of the kind of at least confusing issue or complex issue for us as an investor to understand, this has been a sizable commitment for learning in e-bicycles which you don't know how it pans out.

K.N. Radhakrishnan: I'll correct you. We may not tell you how it pans out, we know very clearly. For example, when we invested 5 years back, I have met many people, they asked me, why are you investing in TVS Credit Services. Today TVS Credit Service is one of the finest financing companies with very good returns. PT TVS, many people have asked me why are you investing in Indonesia that to thick of Japanese. Almost 99% is Japanese, why are you KNR going and investing in Indonesia? Today, Indonesia is becoming successful and the years will prove that we will become far, far successful than many of other competition. So, a 3-wheeler, we came last. We were the last to enter into 3-wheeler. Today, our numbers, we are practically number one in many markets, we are at 40% market share. So, I am of the view people generally say that you will get the first mover advantage and all. Even a fast follower will have advantage, please understand.

Number 2, I think you invest for future. You look at the future trends, invest in that, okay, and then scale it up and be patient. You be patient, don't get disturbed by 1 quarter, 2 quarter, 3 quarter even if you have to take some losses, treat that as investment. So, that is the approach we take, okay. Today, I can proudly say that more than 60% of our portfolio which we invested about 4, 5 years back are returning very well, better than the industry. Desikan, you want to add on about TVS CS anything more?

Gopala Desikan: No, just wanted to tell you TVS CS, the performance has been exemplary. We've crossed Rs. 16,000 crore on the book size. We are not providing for the NPAs for the last 6 months continuously now. And it's doing extremely well. The collections are better than the pre-COVID days today. We were cautious in deployment for quite some time now.

K.N. Radhakrishnan: Seven years back when we started, we were 100% TVS Motor. Now the dependence on TVS Motor is less than 30%.

Shridatta Bhandwaldar: Interesting.

Gopala Desikan: We may have to wrap up in just 5 minutes please. Last few questions.

Shridatta Bhandwaldar: Yes, sir. Whatever 1 or 2 last questions of the same thing. This I think about Rs. 1,800 crore commitment, correct or total, Bibhishan, that will happen over what period in this acquisitions?

- Bibhishan Jagtap:** Which one?
- Gopala Desikan:** Rs. 1800 crore, where is that number? What is that number?
- Shridatta Bhandwadar:** Bibhishan, total number is Rs. 1800 crore, right?
- Bibhishan Jagtap:** No, so what I was referring to is I think during this year in FY '22, probably investments in our subsidiaries we did about Rs. 1,400 crore, right? So, how one should look at that number for the next 2 or 3 years? Which are the significant investments one can expect in the subsidiaries in the coming time?
- K.N. Radhakrishnan:** Yes, it is strategy driven and it is purely from looking at, we have a very clear strategy to look at how the company has to be in the next 5 years, 10 years vision. So, in that context, I promise you whatever we invest, it will give returns. You look at our consolidated, also you look at our TVS Motor or TVS CS, you look at it, in the last 3 years when there were a lot of headwinds and I agree that relatively our profitability is lower than some of the competitors, but if you look at the momentum in the last 2, 3 years when tough times were there, we were consistently performing better and better in relative terms and you will see that performance to continue. So, same way I spoke about PT TVS, I spoke about TVS CS. I think the new investments will definitely start yielding much better results going forward. So, I'm pretty confident that we are investing in the right segment as per our strategy. These numbers will depend upon the strategy and opportunities what you see. Most importantly I believe that for example, some of the people have asked me, why you will succeed in Ronin? I understand the customer friend. I don't look at RE, I look at my customer, my customer who comes into my showroom and say, Apache but do you know I want like that, okay. Then what is the size of the market? I understand the market segmentation, I look at from the industry, oh okay. So, okay, leverage the platform and see what all things we can do, here comes Ronin. Same way the genesis of Ntorq. So, we have the design and development capability. Most importantly, if you have poor design and development capability coupled with the customer understanding, you can come up with delighting products, that is tedious and that is what you have seen in Ronin and you will see Ronin becoming a 10,000 brand, okay, only in India. Then we can take it to other countries because we have this platform.
- Shridatta Bhandwadar:** And sir, last question. As you say that there is a moment in cash flows and cash flows will only go up as our profitability and everything keeps moving up, the largest allocation of capital incrementally, is it fair to assume that it will happen towards the EV part of our business?
- K.N. Radhakrishnan:** Maximum will be EV only because I see, we will put some incremental investments in designing and developing some things, but we have practically most of the platforms ready. So, the innovation part we will never stop. But disproportionate investments will happen only in EV and future mobility, let me use the word future mobility.
- Shridatta Bhandwadar:** Thanks a lot sir for sparing time both of you.



*TVS Motor Company Limited
September 13, 2022*

K.N. Radhakrishnan: You're most welcome. Whenever you people are available, tell us in advance, you can visit the factories, spend time with us. Seeing is believing because many of the questions, many of the colleagues whatever they ask, you walk around and spend about 3, 4 hours here, okay, you will get the answer. I promise you that.

Shridatta Bhandwaladar: Sure, sir. Thank you. Thanks a lot.

Bibhishan Jagtap: Thank you so much.

K.N. Radhakrishnan: Thank you.