"TVS Motor Company Limited
Q3 FY '24 Post Results Conference Call"
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MODERATOR: **MR. ANNAMALAI JAYARAJ – BATLIVALA & KARANI SECURITIES (INDIA) PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the TVS Motor Company Limited Q3 FY24 Post Results Conference Call hosted by Batlivala & Karani Securities India Private Limited. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Annamalai Jayaraj from Batlivala & Karani Securities India Private Limited. Thank you, and over to you, sir.

Annamalai Jayaraj: Thank you, Lisa. Welcome to all the participants for the TVS Motor Company 3Q FY24 post results conference call. From TVS Motor Company management, we have with us today, Mr. K. N. Radhakrishnan, Director and Chief Executive Officer; and Mr. K. Gopala Desikan, Chief Financial Officer.

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

K. N. Radhakrishnan: Good evening, everyone, and thanks for joining us today. Happy New Year to everyone. Let 2024 bring in a lot of happiness, success and prosperity to all of you. We are very delighted to share the company's PBT and the performance during last quarter. Company PBT surpassed the milestone of INR2,100 crores for the first time. All of you will remember that last year, the year as a whole, we had INR2,003 crores as a year as a whole profit. PBT for the first nine-month period is INR2,109 crores. And we are extremely happy about it.

During Q3, the company continued its sustained growth in revenue, EBITDA and profit, company continuously surpassing its own milestones due to excellent product pipeline, thanks to the customers and their confidence on TVS Motor. Now let me get into a little more detail about this quarter.

During this quarter, company's operating revenue grew by 26%, INR8,245 crores as against last year's INR6,545 crores during Q3 last year.

Domestic sales for two-wheeler market, company sales grew 33%, almost eight lakh units as against last year's six lakhs. All of you know, the industry growth, we have done much better than the industry growth. In international market, the company sales grew by 4% at 2.16 lakhs against last year's 2.07 lakhs. Here also, we have grown better than the industry.

During the quarter, the company sold 48,000 units of electric vehicles as against last year's 29,000. Here also, we have done better than the industry. Total two-wheeler sales grew by 27% at 10.63 lakh units against last year's 8.36 lakh units in Q3 last year. Total sales of three-wheelers is at 38,000 as against last year's 43,000 in Q3 last year.

During this quarter, company's EBITDA grew by 40%, INR924 crores as against EBITDA of INR659 crores during Q3 of last year. And EBITDA margin for this quarter is 11.2%, improved from 10.1% last year in Q3. PBT for the quarter grew by 63% at INR775 crores as against

INR475 crores during Q3 of last year. Profit for the current quarter includes other income of INR73 crores relating to gains realized from investments. Profit after tax for the quarter grew by 68%, INR593 crores as against INR353 crores of Q3 last year.

Now coming to cumulative nine months, company's operating revenue grew by 19%, and we are at INR23,608 crores as against last year's INR19,773 crores. As I told earlier, PBT for the first nine months period grew by 45% at INR2,109 crores as against last year's INR1,457 crores. And during the first nine months period of this year, we have already crossed last year's overall profit of INR2,003 crores.

Profit after tax for the nine-months period grew by 48%, INR1,598 crores as against last year's INR1,081 crores.

On EV, Q3, we witnessed industry coming back. And all of us know that there were some tactical actions during this quarter. TVS iQube is growing ahead of the industry continuously over the last 6 quarters. We are continuously expanding the availability of TVS iQube in India.

As we speak, TVS iQube is available in more than 400 touch points. Progressively, we will increase this quarter to a much more number of touch points in India. We have also started exporting TVS iQube. As we have communicated earlier, we will have a series of products this year, this financial year, for different customer segments. And we'll have a complete portfolio of offering in EV. We will be launching these products in coming quarters.

With a well-planned product lineup planned from TVS and the continuous improvement in infrastructure, we are confident that we will continue to be a strong player in the EV segment.

On TVS Credit, first time we have crossed the book size of INR25,000 crores. To be precise, we are at INR25,300 crores. And TVS Credit Service PBT for the quarter grew by 75%. And we are at INR230 crores as against INR131 crores during Q3 of last year.

On outlook, the GDP definitely is growing better than all of us expected. However, there are some challenges in sowing. But we could see some momentum coming back in the rural sector during Diwali season. And we expect in Q4, this momentum should continue.

International market, slowly and steadily, we are seeing change in positive growth. But it is taking a little longer than what is expected in many markets.

Our share of company's premium product sales are growing. And we will continue to invest in that and we will grow. All of you know that during Q3, we announced our entry in the Europe market by signing a strategic partnership with Emil Frey, it is a 100-year-old enterprise and we are very confident that this will be a great achievement for TVS Motors in the coming years. Company will launch both ICE and EV products in select markets in EU. We are prioritizing the countries with strong two-wheeler demand, coupled with existing Emil Frey infrastructure and resources to build this distribution network.

With a strong portfolio of brands, starting from Apache, Jupiter, Jupiter 125, Raider, Ntorq, our Star range, HLX, Radeon, TVS King and TVS Ronin, we express thanks to the customers' confidence on us. We will continue to grow ahead of the industry, both in domestic and international markets.

Overall, all of you have seen Q3 has been a great quarter for us. And we will continue the same momentum in terms of both revenue growth and EBITDA growth going forward. We will continue to invest in product, technology going forward. And definitely, you will see many more products from the company.

We've already seen the EBITDA growing in the last three years. And this quarter, it's the highest, 11.2%. We are confident that we will continue to leverage our revenue growth, premiumization, sustained cost reduction initiatives to improve profitability in Q4, that is this quarter, the coming forward quarter, and going forward.

Thanks for your time and your continued trust on the company. Thank you. Once again, I would like to wish all of you and before close, PBT for the first nine months, we have already crossed INR2,100 crores first time during the first nine-month period of the history of this company. Thank you.

Moderator: The first question is from the line of Chandramouli Muthiah from Goldman Sachs.

Chandramouli Muthiah: I'm just trying to understand the product mix. That's my first question. So if I compare versus last year's fiscal, if you just look at scooters, ICE scooters and mopeds, I think we are about 60% of the volumes were from that category and iQube was about 4%. Versus YTD this year first nine months, it appears that iQube has improved to 6% of the mix, but the ICE scooters and mopeds portfolio has come down by about 500 basis points. So just trying to understand, were there any sort of product discontinuations in the ICE scooter and moped portfolio, Scooty Pep and the domestic market will go in the export market? Just trying to understand that a little better.

K. N. Radhakrishnan: Scooty Pep is one product we have discontinued. Because when we look at the overall portfolio of the company, we looked at and we have enough good quality products in terms of Ntorq, Jupiter 110, Jupiter 125. And there is a huge opportunity to grow these products into the market. So it was a very measured call. And overall, I think we have to look at overall growth. I think we have done very well in scooters. We have done very well in EV as well. In terms of, like I said, what is most important is, overall, we have to grow ahead of the market, and that has happened.

Mopeds, there is a slight uptick. That's why I said there is some change we are able to see in the rural market. But it's early signs. I think we have to wait because still the buying power of these entry-level customers, especially in the rural, it's only improving, it has not come to the normal level. So we have to be a little bit patient here. Scooters and EV, we are very confident that going forward will do extremely well.

Chandramouli Muthiah: Got it. That's helpful. Second question is specific to the Raider. I think the product continues to do very well. It seems to be a lot of full demand in the market. It appears that you have been able to take some price hikes on the Raider.

So just trying to understand, I think that sports 125 category seems to have more product launches from peers. There seems to be some price cuts also from some of your peers. So what's giving you the confidence to take these price actions on the Raider? And also just related to that, have you been able to take price hikes in January across the portfolio?

K. N. Radhakrishnan: The Raider is a great product. I think the customer confidence is what it's seeing. Like I said last time, Raider is one offering from the company which is very well accepted in the market. And quarter-after-quarter, we are able to see the customer retail is going up and market-after-market, we are seeing huge success. I think this is purely the connectivity with the customers. And we constantly look at the opportunity. And depending upon the opportunity, we look at the pricing. And as of now, we have not increased any prices in January or even in December.

Chandramouli Muthiah: Got it. That's helpful. And lastly, just a housekeeping question, if you could just share the export revenues and the spares revenues for the quarter, please?

K. N. Radhakrishnan: Parts revenue is around INR792 crores for this quarter and exports is about INR1,882 crores.

Moderator: The next question is from the line of Pramod Kumar from UBS.

Pramod Kumar: Just to follow up on what you talked about spares, we have seen that your spare parts contribution to revenue remains sub-10%, which has been the trend for the last 5 years while some of your peers have seen their spare parts penetration improve from 9.5% of revenue to almost 14%, 15% of their revenues. Just trying to understand, is there opportunity there? Or what explains such sharp spare parts fall?

I'm just trying to understand, is there availability challenges for your spare parts in the aftermarket, which you can address with faster growth in the spare parts? Because the reason I'm asking this is on the last 5-10-year horizon, your volume growth has been the fastest in the industry. It's been the highest in industry by a long -- by a wide margin. And so to that extent, I think your spare parts should also be -- ideally should be better than the competitor.

So I'm just trying to understand, what is missing here? And are there any sort of plans to improve the spare parts preparation? Because not only helps the customers with better access to quality parts, and also it is much more profitable than the product revenue, core product margins, right? So if you can just help us understand this, sir.

K. N. Radhakrishnan: See, spare parts is also growing. If you look at our revenue growth, overall revenue growth and spare parts growth, we are doing extremely well. But we constantly look at where are the opportunities in terms of more penetration in spare parts. But fundamental thing is we want to push the spare parts as the same principle of the stock and the authorized parts stocks as well as the retailers, we reach the right kind of levels for stocks because we don't want to push the numbers just extra.

I think what is most important is based on consumption, based on the service, this productivity in the dealership, that is the way we look at it. But every time when I look at it, there is opportunity, definitely there is opportunity to it.

Pramod Kumar: And on the demand side, sir, you said rural has started to have seen some traction. But how do you look at rural versus urban? Because you are one of the few guys who has a portfolio which is relevant in both urban and rural market. So how do you see the rural versus urban bit?

Because there is a bit of a thought also that 100cc demand is coming back, rural demand is recovering. And it could kind of have, what do you say, a drag on the scooterization and the premiumization trend. So from your vantage point, how are you seeing these trends playing out, sir?

K. N. Radhakrishnan: Rural, too early. Because if I look at it, there is only a small improvement in terms of the entry level and mopeds. It's not a significant change. But I'm very sure that these are markets where they had maximum problems post COVID and income level. And because of the transition to the electronic fuel injection because of OBD, the BS VI and the further OBD II phase A, I think the prices have gone up.

So I think the transition is happening. And as you know, the retail financing is also supporting this set of customers. I'm very sure that quarter-after-quarter, you will see small improvement in this growth. However, significant growth will be seen in semi-urban and urban. So this is something we have to be conscious. However, I think slowly, you will see the change. And I'm very sure that the sentiments are becoming positive. So we have to wait and watch, one level of change we have seen this year in the Diwali season.

Pramod Kumar: Okay. Sir, on the P&L side, your other expenditure and employee cost continues to kind of grow reasonably out of the revenue in a way more or less on a quarter-on-quarter basis. So I'm just trying to understand, what would be the sustainable trend you are looking at, especially for other expenditure?

Because last quarter, we had a couple of launches which was there only in the 2Q base. Even on that base, we have seen a further improvement or a higher spending there. And here, on the employee side, if you can just help us understand, by when do you start seeing it as a percentage kind of normalizing on a sequential basis, sir?

K. N. Radhakrishnan: See, other expenses, let me answer first. I think there is an increase in the stacking and freight expenses because of the expenses really going up. See, the price is going up. And as you know, this year, Q3, we had the season, full season in terms of both the Dussehra and the Diwali. And you remember, we definitely invest in - we keep it as an investment. We don't look at it as a cost on the marketing side.

I think one of the reasons why Raider and the Jupiter 125 and some of the portfolios are doing extremely well is the kind of investments that we have made. And that will help us to take it to the next level and what is most important is when the revenue starts growing up, this percentage also will help us.

And on employee cost, this is the area where we are investing in, especially in the new technology areas like software engineers and also in analytics and digital. And also electronics, I think we are building up a very, very strong team, okay? And this is required. Because when we are now trying to look at entering into many of the global markets, especially developed markets, this requires investments in people.

Because this will come first. And then you will start realizing the turnover and the top line. So I'm pretty confident that this is definitely going to be the strength of TVS Motor. So the salary cost, we are not investing in ICE. We are investing behind areas where we need to really look at the future and areas where we need to improve our domain expertise.

Pramod Kumar: And sir, lastly, Mr. Desikan, sir, if you can just help us understand the consolidated operation outside of financing norms. There have been losses which has tied up last year and during first half. How are we trending there in terms of the control on the losses there on the expenditure side?

K. Gopala Desikan: Sure. Let me start with finance because they have done very well this quarter. For the quarter, the PBT reported yesterday was INR229 crores as against the sequential quarter of Q2 of INR179 crores, more by INR50 crores. And again, like TVS Motor, the nine months ended profit of INR566 crores is more than the full year's profit of INR511 crores of last year.

As far as book size is concerned, they have crossed the INR25,000 crores. And the GNPA is at 3.1%. And even after the RBI circular with regards to the additional risk-related capital allocation, the capital adequacy ratio is at a healthy 18.6%. The collections have been, as usual, very good. The business disbursement for the quarter is around INR7,000 crores when compared to the last year's INR6,000-plus crores. And this is what as far as TVS Credit is concerned.

The other subsidiaries, as explained in the previous quarter also, the Norton-related expenses are more out of accounting compulsions being written off. Otherwise, they are all development-related costs. And it has come down when compared to the previous quarter.

K. N. Radhakrishnan: Here, I want to highlight only, last time also, I highlighted that please understand we need to have a healthy product pipeline. And we are now designing and developing and putting that products in totality. And definitely, it will take about 6 to 8 quarters to start completely realizing the benefits of that.

And as you know, this is going to be a complete portfolio, which is going to help to supplement the complete product range what TVS Motor has got today. So I'm pretty confident that going forward, you will see a very strong product pipeline from Norton, and that product will delight the customers globally. And this will start doing extremely well.

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

Kapil Singh: Just one perspective from you on EV industry demand and also competitive intensity. Are you seeing an increase in competitive intensity versus last time we met? And how is the profitability trending for iQube?

K. N. Radhakrishnan: See, our profitability is continuing to be strong, But all of us, we need to understand that there are some tactical actions, I think we can expect this from competition. But according to us, pricing is only one element in the process of buying. There are many aspects for the customer. He will look at the product. He will look at the experience, usage, connectivity, infotainment, range, build quality, many, many parameters, he will look at it. So price is only one parameter.

And what we should look at as an industry is how we are going to focus on the customer, how we are going to deliver products which are going to be on a sustainable basis. And here, I wanted to only look at one thing, We have seen similar short-term action in ICE also in the past, okay? There were several tactical actions short term and many players have done it. And none of them have sustained. We have seen it in retail financing, we have seen such things when some models are discounting heavily.

But please understand, consumer understands all this. And they're not going to, beyond the point, help building a brand. And we are talking about an industry which is going to be long term, we're going to be very strong, sustainable. And we will very clearly focus on delighting the customer with every touch point. And already, iQube existing customers are extremely delighted and happy. They're our brand ambassadors. Currently, we have over 400 dealers. We will double it by end of the quarter.

So there is a huge opportunity. And we already started exporting. There is a huge market for exports. And we are also coming up with a lot of products in the pipeline. The new product launches are going to come. So these are things which we have seen even in the past. So we are not so worried. And what is most important is we are continuously doing better than the industry. That is what is most important.

Kapil Singh: Sure, sir. No, that I agree. And in terms of the reach for iQube, in terms of number of cities, how is it right now? And how does it compare to.

K. N. Radhakrishnan: I said 400, okay? We are looking at doubling it in the next 3 months.

Kapil Singh: I'm sorry, doubling it in the next 3 months?

K. N. Radhakrishnan: Yes. So we use our own existing dealers.

Kapil Singh: Okay, okay. Understood. Just one clarification I had on the other income. There is a mention in the notes to account that there was some INR82 crores income that has been recognized as part of other income due to a transaction with Sundaram Auto Components. And there is another INR37 crores fair value recognized. But when I see the other income, it is showing up INR73 crores. So can you please help me reconcile this?

K. Gopala Desikan: So the other income, let's go to the notes for a minute. So let me just read the notes. The INR80-plus crores, what we indicated, is a realized gain of a capital reduction, what we have done through an NCLT order with the wholly owned subsidiary, Sundaram Auto Components. And the balance is a notional loss that has been due to fair valuation of the investments due to the accounting standards.

The net figure is what is that INR73.4 crores. The other income for the quarter ended 30 September, the year ended 31 March includes that's a separate one, INR37.55 crores and INR61.69 crores respectively. So Note no.3 relates only to the INR82.27 crores of realized gain and adjusted against the notional loss of around INR9 crores.

Kapil Singh: I'm sorry, where is the notional loss mentioned?

K. Gopala Desikan: So this only talks about towards the reduction. That includes a profit of INR82.27 crores recognized as part of other income. So the net figure of INR73.4 crores is INR82.27 crores minus that INR9 crores of notional loss.

Kapil Singh: Okay. And then there is this INR37 crores recognized?

K. Gopala Desikan: No, point number four is the 30 September 2023 for the quarter and for the previous year.

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

Amyn Pirani: So my question is on the export side. You mentioned that recovery is happening, but it's happening at a slightly slower pace. So two questions there, a). is the recovery happening due to demand being weak? Or is it more to do with currency availability and other issues?

And a follow-up on that is, are we seeing further supply-related problems because of the recent crisis on the Red Sea? And is it causing us in terms of higher freight rates or unavailability of containers? And what's the outlook for that?

K. N. Radhakrishnan: I think on the first item, whatever you highlighted, definitely some of the markets, we are seeing both the depreciation of the currency and also sometimes the delay. I won't say currency availability is not there, but there is a delay, In terms of when I said recovery, now when we went through last 6 months back, dispatched kind of a control because the retails were slowing down. So all that is corrected.

Now we don't have any problem in terms of more and more retail customer, retail is happening. We are able to dispatch more and more. Now coming back to the current crisis, whatever you said, it has just started. There are some initial feedbacks on container availability, some pricing going up. I think we have to very closely watch it, So it's too early, I would say, but it is seen this month, for example.

Amyn Pirani: Okay, okay. Understood, understood. That's helpful. And secondly, on the rural recovery that you talked about the EV-related launches that you are expecting. Is there a plan to launch motorcycles or scooters at the lower end if you are seeing a rural recovery? Or you think the portfolio on the ICE side is more or less complete as far as TVS is concerned?

K. N. Radhakrishnan: See, we have to constantly look at the strength of TVS. We're constantly looking at the customer segments and looking at where are the products we can come up with. So that will continue. I think we should not be so much worried about the rural challenges, what we have gone through in the last couple of years.

See, given the population, given the kind of infrastructure investments on roads and kind of connectivity, whatever we have seen and the mobility needs, I think two-wheelers, I always believe that it will grow more than 10% CAGR, definitely. And rural will also start growing. I think what we have seen is the ability of the rural not able to manage the cost increases and price increases and their income not growing in line with that.

On the EV side, again the product pipeline is based on the customer segment. There may be some short-term challenges in certain areas in rural. I think we have to look at a long-term point of view and then invest in these products and develop. And we look at the customer segments, and more and more closer to the launch, I'll tell you what kind of products and when we will be launching.

Amyn Pirani: Sure, sir. Just lastly, can you help us with the financing penetration that you have seen in the quarter?

K. N. Radhakrishnan: This is retail finance?

Amyn Pirani: Retail finance, yes.

K. N. Radhakrishnan: Yes, just a minute, I'll tell you. Retail financing is now healthy this quarter, thanks to the Diwali season. And the festive season, we have seen almost 65%, which according to me is one of the best numbers I have seen in retail finance.

Moderator: The next question is from the line of Raghunandhan Nl. from Nuvama Research.

Raghunandhan Nl: Congratulations, sir, for a strong set of numbers. Sir, firstly, a follow-up question on the EV side. In earlier quarters, you had indicated that we have achieved the gross margin breakeven for electric two-wheelers. Has margins further improved considering the fall in battery prices and continuous efforts on localization and better scale? And going forward, you should also get more benefits in terms of PLI incentives. So how are you looking at it? Would you be retaining the benefits or partially passing on the benefits to support EV penetration?

K. N. Radhakrishnan: See, like I said, the margins are positive and it is definitely improving. What is most important is this is an investment phase in terms of products and technology. And we have to come up with a range of products and then grow good volumes in the markets. So that is the focus we are in. But we are happy on the journey of margins and how it is overall panning out.

And we are also now just started products into the global markets. There's a huge opportunity there. So if you ask me, the priority is to look at delivering the products which are in the pipeline, continue to grow the customer satisfaction and the volumes, concurrently look at how do we cut down the cost and continuously improve the margin.

Raghunandhan Nl: Got it, sir. And on the overall raw material cost, there is some decline on a QOQ basis. So just trying to understand, what were the factors which led to this decline? Because even on a QOQ basis, if I look at the share of exports, that has slightly come down. So despite the exports coming down, there is margin improvement. If you can talk a little about what helped the margin.

K. N. Radhakrishnan: See, quarter-on-quarter, if I look at last quarter to this quarter, material cost has reduced mainly due to sustained material cost reduction. And as you know, the commodities are almost flat. And we have not done any major price increases, practically no price increases in the last quarter, okay? So -- and if you compare the same with the last quarter, last year similar quarter, definitely there is a softening of material.

We have done some price increases this Q3 of last year, And please remember, all this are with the EV also. So overall, I think the contribution management, the material cost reduction, overall product mix and focus on opportunistic price increases have helped the company to improve the raw material cost as a percentage. And we are sustaining that and we are moving forward.

Raghunandhan Nl: Got it, sir. And just lastly, Ronin as a product has received a positive response. So how would your target improving presence in cruisers in terms of products, network or rising ecosystem? What are your thoughts? And would you bring in more models either in the under the Ronin brand or Norton brand in the future to improve your position here?

K. N. Radhakrishnan: Ronin, the initial response has been pretty good, and we are happy. I think we have to sustain. We have a very clear plan to sustain this momentum and build it as a big brand. Norton, I already told you, we are coming up with a very clear product plan. Closer to launch, I'll give you what kind of products. And definitely, we will focus India also in the journey. Because Norton's complete portfolio is going to supplement the overall excellent product range what we have, what TVS Motor has.

Moderator: The next question is from the line of Jinesh Gandhi from Ambit Capital.

Jinesh Gandhi: Just to quickly clarify, on the EV product launches you mentioned, will you be launching more products in fourth quarter itself or in FY25, are we referring to?

K. N. Radhakrishnan: These four quarters, including this quarter, you will see launches. Closer to the time of launch, I'll let you know. But we have a very good product pipeline in the EV side.

Jinesh Gandhi: Okay. And in that context, where are we in terms of capacity for EVs? Or how much we can do for iQube and overall electric two-wheelers?

K. N. Radhakrishnan: Capacity is not a problem. I think we have taken enough countermeasures and investments in terms of the right capacity. Plants are ready. We have got a very good supply chain in India we have developed with them. So at best, we require about 3 to 4 months to increase the capacity. So we always plan ahead along with the product launches. So I'm pretty confident on that.

Jinesh Gandhi: Got it. And lastly, can you update us on the PLI incentives for iQube and other models which we will be launching? Where are we in that journey?

K. N. Radhakrishnan: We are in the advanced stages. The PLI approval process for TVS is in advanced stage. And we will let you know as soon as we get the certification is getting completed.

Jinesh Gandhi: Okay. And lastly, Desikan, sir, can you talk about the USD/INR realization for this quarter, dollar realizations?

K. Gopala Desikan: Yes, one second. It's around INR83.

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

Hitesh Goel: Sir, can you shed some light on what is happening in the export market? Because like you pointed out, this Red Sea crisis is just starting. We are seeing inflation being very high in the end markets in Africa, Latin America. So can you give us some country-wise inputs and what is happening in these markets? And what are you doing about it?

K. N. Radhakrishnan: Actually, African market, there are some challenges in terms of the currency depreciation. Like I said, currency availability is still good, but there are some delays. Inflation is settling down. I won't say it was as harsh as what we have seen in the past, And in terms of certain Middle East and other markets, it's good actually. The market is growing and there is a good opportunity.

LATAM is another set of markets, there is a good growth opportunity, both for the industry and for TVS, ASEAN is another market which has actually done well last year. And we have a very good opportunity there. So overall, I would say that in India all of you know how the market situation is. Overall, I think the worst portion of this is over. And we'll have to see how each and every market is going to pan out.

And we have excellent product range. So I'm pretty confident that while there could be some delays, for example, this Red Sea, we'll have to see how it is going to pan out. Maybe there will be some little bit of delays in container availability for some time and then it will settle down. So overall, I'm very happy that our products are very well accepted in many of these markets. And we are able to grow ahead of the industry. And we are also seeing certain markets growing much faster.

So we will leverage that, depending upon the situation. And this quarter, we are also seeing Sri Lanka slowly opening up. I'm feeling that the international market, we have also seen this kind of challenges in the past. So we have to be very cautious about the market, and we have the right kind of inventories in this market. So I'm looking forward to this year, this quarter as well as the next 4 quarters. I think we should do well in the overall IB market.

Hitesh Goel: Sir, just a clarification, can you give us the volume mix of your country-wise or Africa, LATAM, Southeast Asia in nine-month FY24 versus last year, so just to get a sense how these markets are growing?

K. N. Radhakrishnan: Yes, Africa has been the biggest market for us. And now LATAM is growing. I don't have the exact data with me. But Africa is the biggest market. And it is - there is a great opportunity for us to do well there. LATAM, we have just started about a couple of years back and the industry is huge in LATAM. Middle East, also a very good market, and we have just started in the last few years.

You know about - Sri Lanka used to be a great market. Now it was closed, now slowly opening. I would say that the industry is very small as of now. From the other markets, like Philippines, Myanmar, they're all opening up. So there are growth opportunities there. Each country is in a different kind of a situation. But the good thing about our product range here and also, Indonesia is definitely helping us to grow in this market disproportionately, I would put it that way.

Hitesh Goel: Okay. Sir, my second question is on electric two-wheeler. Basically, you're going to get this PLI incentives, right? Would it get passed on to the customer to improve adoption? Or would the industry or you guys would keep some part in the margin? Just to get a sense because.

K. N. Radhakrishnan: We always look at the customer and the customer segments, thanks to the government, whether FAME or PLI, these are all incentives to promote this industry, I think, if we look at the total investments and the people and the total kind of product range, what we are developing, this should be taken as real support from the government.

I think we should not plan for any kind of other way. For example, FAME, all of you know how it went down. I think we should be very confident about products and the customer segments and engage with the customers and expand the market. That should be our approach, And pricing, again and again, I'm repeating, pricing is only one factor. There are many other factors when the customers look at the product.

And what is most important is, I've always seen, you have to build the brand. You have to build the resale price. Here also, exactly like ICE, when the customer point of view, he will look at the brand, whether it is getting built over a period of time. And we want to be playing the sustainable game. And we are pretty confident that, thanks to the government with PLI, we are all very good for designing and developing and building Atmanirbhar Bharat in a big way.

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

Gunjan Prithyani: I just had a few clarifications. I just wanted to know this INR300 crores investment, where is that being deployed in this quarter and if you can give us a number on the capex and full year subsidiary investment also again, please?

K. Gopala Desikan: So we have invested in Norton, around INR80 crores, and the other subsidiaries, around INR100-INR120 crores. We have also invested in some technology company, like Killwatt. And this is what I think, overall. We have invested in Norton, in SEMG and Killwatt.

K. N. Radhakrishnan: And a little bit in TVS Digital.

K. Gopala Desikan: Yes, and a little bit in TVS Digital.

Gunjan Prithyani: And what is the guidance for full year now on the sub investments? I think we're already running at roughly around INR900 crores for nine months.

K. Gopala Desikan: Maybe another INR200 crores.

Gunjan Prithyani: Okay. Anything on capex, sir, full year capex?

K. N. Radhakrishnan: Capex, I think last time we highlighted around including EV, predominantly on EV, INR1,000 crores, including all the products in EV and the product pipeline, what we are looking at.

Gunjan Prithyani: So overall, INR2,000 crores, INR1,000 crores on the vehicle side and the subsidiaries would be about another INR1,100 crores. That's clear, sir.

The other question I had, maybe just a clarification on reputation. You mentioned right in the beginning that there have been some tactical moves in the EV market. Can you just talk about what sort of changes that you've seen in the competitive space? Because here, in terms of ramping up the business on 20,000 units a month and we've seen that number come down, is there any change that you've seen in the market environment that has slowed down our ramp-up?

K. N. Radhakrishnan: See, like I said, tactical, all of you understand what is tactical. And you know competition, how they are looking at it. We are very clear that we want to build brand iQube. And it is doing extremely well. It has grown ahead of the industry. What is most important is you have to go ahead of the industry and ahead of the industry very respectfully in terms of overall, on one side, customer engagement and customer NPS is growing. On the other side, the gross margin of the business growing.

So this is exactly what we have done. And we are only present in 400 touch points today in EV. So we have got a huge room to improve that. And just now, we have started the international business. So overall, we are pretty confident about iQube, okay, how it will move in terms of both numbers and market share and how the other products, which are going to be launched in the market, is going to help to further grow the overall EV proportion for TVS.

Gunjan Prithyani: Okay. And sir, what I understand is basically, we will not engage in this sort of pricing sort of discounting scenario. What we want to do is get a more product play. We are fine to have a little bit of aberrations here and there. That I mean, our strategy is going to be straightforward. We don't want to be price.

K. N. Radhakrishnan: I did not say any of that. I said we are focused on the customers. We are focused on engaging with the customers. Pricing is only one strategy. Customer looks at in wholesome. He looks at every aspect of the product. He looks at the total cost of ownership. He looks at every element of the experience he gets. That is the way sustained brands are built.

And that will be the focus of TVS. That will be the play. We will always and we have done it in ICE and we have seen that. That is the reason we have grown ahead of the industry with less than 30 days of stocks with every dealer, completely cash and carry even in the domestic market and consistently improving our quarter-on-quarter EBITDA.

Gunjan Prithyani: Okay, got it. Just last clarification, sir, on the EV business, is there given that you mentioned earlier a lot of investments being made on software, engineering, digital tools and a lot of this is around the even the employee cost around EVs, can you quantify the drag that we're seeing because of the EV business on the P&L, like in terms of either absolute number or.

K. N. Radhakrishnan: No, I don't look at it as a drag, I look at it as an investment. If India has to be Atmanirbhar as well and TVS has to become a global brand, we have to invest in the product. We have to invest in technology. I never looked at it as drag. I look at it as investment. I look at today, if you invest, you will get the benefit. Last time also, I highlighted TVS CS, we are seeing the good results today because we invested very, very clearly a few years back.

Today, we PT TVS is getting profit because we invested in the product. Today, you are seeing TVS growing ahead of the industry. Customers are delighted, and we are seeing sustained growth in our EBITDA only because of investments in people, investments in products, investment in technology, investment in marketing. So that's all we will do.

Gunjan Prithyani: No, no I was just trying to get it, i.e. profitability, but it's fine.

Moderator: The next question is from the line of Vipul Agrawal from HSBC.

Vipul Agrawal: My question pertains to Apache portfolio and more towards 150cc to 200cc industry. How it has changed in last two to three years, especially after the launch of Raider and other premium motorcycles in 125cc? And how do you see the growth outlook for this segment over the next 1 to 3 years?

K. N. Radhakrishnan: I think both, as far as we are concerned, Apache is doing extremely well, Raider is also doing extremely well, okay? And this segment, according to me, will grow because there is very good infrastructure development. And the demography is also pretty good. India is young and many people want this kind of premium products in a big way because they are very aspirational. This is the segment which according to me is going to grow.

And 125 segment is a very good segment where people will look at many, many technology, what is available in the high end is also available here. And Raider has done extremely well. If you look at Raider everywhere, I think it has got state-of-the-art, many new technologies. And it gives the best brand for this set of customers. So my view, these segments will do extremely well, both the 150 and above and 125 and above.

Vipul Agrawal: Just a follow-up on this, so like if you see like 4 years back, when somebody has to buy a premium bike or a sports bike, they had to go beyond 150cc and above only. Now they have a good bike option like Raider available at a cost of around INR1 lakh ex showroom. So what kind of things you are changes you are seeing in the customer perspective?

Like do they still want to go 150 or 200cc? Do they want to spend INR50,000 more on the same bike? I'm just trying to get a perspective from like next two to three years, do they still -- like I understand metro and Tier 1 cities, customers will go. But what about Tier-2, Tier-3 city customers?

K. N. Radhakrishnan: I think what is most important is, again I want to repeat the same thing, price is only one factor. I think people look at the features, technology. What you get in an Apache is completely different and the set of aspirations of those customers are completely different. And if you look at the 125 Raider, it is completely different. And we are very clearly positioned, depending upon the customer segment, what technology, what kind of features, what kind of design it is going to attract them and how we are going to deliver it to them.

That is the ability of any company to look at the customer segment and design and develop the products. So both are very, very important, looking at the customer segments and delivering it. Price is only one aspect. Please understand, when people look at wholesome, people look at what is the kind of overall customer value through technology, infotainment, the kind of connectivity they are looking at in a product, we have seen it not only in two-wheelers.

If you look at any kind of products, what the consumers look at, and thanks to the retail finance, when they come, they don't have to invest everything at upfront. They're able to look at, okay, initially some money and then they can always upgrade on a 36 months or a 24 months. So to me, the aspiration, Indian customers are very aspirational, not only Indian customers. If you look at any developing economy, they are very, very aspirational.

They look at the product pipeline and say, "Okay, this is really good. I want to be going for this kind of a product." What is most important is you have to keep Apache's brand differently, Raider's brand differently. So we have seen actually, both can supplement each other and we can grow more customers to look at us and we can grow faster. That is exactly what is happening with Raider presently there.

Vipul Agrawal: Understood. Lastly, once again follow-up on Apache again, so Apache has, I guess, one of the best-in-class aerodynamics in terms of sports biking and speeding and everything. So do you plan any kind of special marketing happening like other OEMs are doing for their premium portfolio to give a boost to Apache portfolio?

K. N. Radhakrishnan: I respect all competition, I look at the customer, and we are doing appropriately what the customer wants. And we are extremely happy for the response, what we are getting in Apache, the response, what we are getting in Raider.

Moderator: The next question is from the line of Pramod Amthe from InCred Capital.

Pramod Amthe: Sir, considering the amount of investment Norton is doing, would you help us understand the market opportunity there and which segments you are trying to target over the next two, three years' period? As you clearly said, it will take two, three years to realize the current benefits. That's one. Secondly, I just wanted to know, considering your success in EV in India, how are you looking at the opportunity for e-three-wheelers in the next few years' perspective?

K. N. Radhakrishnan: In terms of Norton, like I told you, it takes 6 to 8 quarters for the product pipeline. We need a good set of products when you come up with -- when we start operations of Norton. And as you know, the premium and the super premium -- actually, Norton is super premium category, specialized category. This category is growing disproportionately in many markets, okay? And there is a huge opportunity for TVS, given the kind of capability, design and development capability and quality organization, what we have.

So Norton, at this point of time, we have a very clear road map, which markets, what kind of volumes and how we want to penetrate. Closer to launch, I can give you more details, But we are pretty confident. Like I said, Norton is going to add portfolio for TVS and it is going to deliver very good results for the company.

Coming back to e-three-wheelers, we are in the advanced stage. This is one area which is also going to do extremely well in the market, closer to launch, again I can give you more information about e-three-wheelers. But it will do extremely well. Because not only in India, we can look at the markets where we are exporting. This change is going to help us to have a better portfolio in terms of three-wheelers.

Thank you, everyone. And once again, happy and prosperous 2024. And we've seen a quarter with the best results on operating revenue of INR8,245 crores, operating EBITDA margin of 11.2% and PBT for the year, INR2,100 crores, in nine months, crossing last year's number of INR2,003 crores.

I am very confident that our focus on customers, we will continue with the kind of portfolio, what we have. And we will definitely leverage the scale benefits and premiumization and material cost reduction. And quarter-after-quarter, we will continue to improve our EBITDA as well. Thank you. And once again, Happy New Year, prosperous New Year to all of you. Thank you.

Moderator: Thank you, members of the management team. Ladies and gentlemen, on behalf of Batlivala & Karani Securities (India) Private Limited., that concludes this conference call. We thank you for joining us, and you may now disconnect your lines. Thank you.