



“TVS Motor Company Limited
Q4 FY '24 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to the TVS Motor Company Limited Q4 FY '24 Earnings 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 for his opening remarks from Batlivala & Karani Securities India Private Limited. Thank you, and over to you, sir.

Annamalai Jayaraj: Thank you, Sejal. Good evening, everyone. On behalf of B&K Securities, welcome to 4Q FY '24 Post Results Conference Call of TVS Motor Company Limited. I also take this opportunity to welcome the senior management team of TVS Motor Company Limited. We have with us today, Mr. K. N. Radhakrishnan, Director and Chief Executive Officer; and Mr. K. Gopala Desikan, Chief Financial Officer.

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

K. N. Radhakrishnan: Good evening. Thanks for joining -- thanks to all of you for joining today. First of all, we are extremely happy to inform you that the company has won top honours in almost all categories in J.D. Power 2024, India 2-wheeler Initial Quality Studies and APEAL. We are extremely thankful to all our customers for their trust, encouragement and securing the top positions across multiple product segments consistently for several years demonstrate the customer confidence on our products.

This is also the year, '2023-24 was the year where we achieved significant milestones in terms of sales, revenue and profit. First time, we have surpassed sales of over 4 million units of 2-wheelers, posted all-time highest revenue of INR31,776 crores, profit of INR2,781 crores despite many challenges, in the international market. But let me give you first about the full year results, and then I'll talk about Q4.

As I highlighted, the revenue from the operations grew by 20% from INR26,378 crores to INR31,776 crores. Domestic ICE 2-wheeler sales numbers grew by 19% as against the industry growth of 13%. EV volume has doubled from 97,000 during last year to 194,000 this year. IB 2-wheeler sales declined by 3% over the last year as against the industry decline of almost 5%.

In terms of profit, our operating EBITDA improved by 100 basis points from 10.1% during last year to 11.1% during this year under review. During the year, the company posted the highest ever PBT, a growth of 39% at INR2,781 crores as against INR2,003 crores during last year.

Profit after tax for the year grew by 40%, INR1,491 crores to INR2,083 crores. During the year, company generated an operating free cash flow of INR2,259 crores as against INR795 crores during the previous financial year. Net debt on 31st March has come down by INR1,028 crores.

On Q4, during the quarter, company's operating revenue grew by 24%. We are at INR8,169 crores as against INR6,605 crores during last year Q4. In the domestic ICE 2-wheeler market company sales grew by 18% at INR7.5 lakhs units as against 6.36 lakh units during Q4 of last year.

In the international 2-wheeler market, the company sales grew by 47% at 2.36 lakhs as against 1.61 lakhs during Q4 of last year. We sold 49,000 units of electric 3-wheelers against last year's 43,000 units of EV. The total 2-wheeler sales grew by 23%, 10.32 lakhs as against 8.39 lakhs. And the 3-wheeler sales grew by 4%, 30,000 units as against 29,000 units last year.

Profit for the quarter, the EBITDA grew by 36% at INR926 crores as against EBITDA of INR680 crores during Q4 of last year. And the EBITDA margin for the quarter is 11.3% as against 10.3% during Q4 of last year. PBT for the quarter grew by 23% at INR672 crores as against INR547 crores during Q4 of last year. PBT for the current quarter includes a fair valuation loss of INR47 crores as against a gain of INR62 crores during the fourth quarter of last year.

Profit after tax for the quarter grew by 18%, INR485 crores as against INR410 crores during Q4 of last year.

On industry and the performance of EV, you know that the EV industry grew by 32% over last year. The full year penetration was at 5.4% as against 4.7%.

Government incentives have been scaled down significantly but originally INR51,000 per vehicle in the previous financial year, it's about INR22,000 in June 2023. Further it has come down from April 2024. The FAME scheme has moved into the new EMPS scheme, and this is valid till 31st July 2024.

TVS was able to absorb a major portion of this reduction through the cost reduction initiatives, scale benefits and commodity cost reductions. We believe the industry will continue to grow and with the support from the government and improvement in the infrastructure.

During last year, the EV volume grew by 100%, TVS iQube established as a very strong brand in the EV segment with its technology, features and best-in-class quality. TVS iQube, I'm extremely happy that we have crossed now cumulatively 3 lakh customers in India. We also expanded network. We have moved now to almost 712 touch points in India.

We are happy to inform you that during the month of April, the company was awarded PLI scheme for its current 2-wheelers in EV portfolio.

Some of the EV products planned pipeline are in the final stages. You will be seeing new launches in the upcoming quarters, which is appealing to various customer segments. We are also extremely happy that we will be announcing multiple options in TVS iQube to provide appropriate range and price combinations with different battery capacity to our customers because this is very, very critical. This also an insight from our customer understanding.

All of you know that TVS X, the premium electric crossover, which we have developed many advanced technologies, including cutting edge connectivity, which was showcased in various international markets. We are reaching out to those who booked, and they are very excited with the ride experience they have got, and we are starting deliveries in the next few weeks.

As you are aware, during this year, we have started exporting TVS iQube to few ASEAN markets and the Asia market. We strongly believe that India will emerge as a major exporter of 2-wheeler and TVSM will expand its EV product sales to both the developing and developed countries.

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

On TVS Credit. During the last financial year, TVS Credit achieved a significant milestone with over 1.3 crores customer base, book size crossed INR25,000 crores, grew by 26%, now it is at INR25,900 crores. TVS Credit PBT for the year grew by 49% from INR512 crores during the financial year 2022-23 to INR763 crores. All of you know that company raised external funding during the year, demonstrates strong financial position of our company.

Various digital transformation projects help the company to provide superior customer experience. Now TVS CS offers products and expanded portfolio financing for used car consumer durables, new and used tractors, used commercial vehicles and now we have started gold loan apart from 2-wheeler and 3-wheeler financing.

When we look at '2024-25, India GDP growth is anticipated to surpass initial estimates with expectations of around 6.5%. India will be one of the major economies in terms of the growth. The growth is underpinned by the key socioeconomic fundamentals and proactive and consistent policy by the Government of India and RBI. And we are expecting that the monsoon this year is likely to be normal.

The ongoing geopolitical issues may affect the supply chain. Presently, we are not envisaging any major disruptions due to this. In the last 3 years, we have seen some of this disruption in supply chain, and we were able to alleviate most of these constraints. The company manages a diverse multi-source global supply chain to counteract these risks. We are expecting this year, the 2-wheeler industry will have a healthy growth. We expect the growth to come from urban and rural, starts improving this year.

During the last financial year, the product whatever we have launched has helped us to significantly grow better than the industry, primarily led by TVS Raider amongst many, many products like Jupiter 125. We are very confident that the growth momentum will continue this year.

In IB 2-wheeler market, we anticipate to see a certain level of recovery in this year. Some of the major African markets are showing some recovery, some continue with challenges. We continue

to upgrade our product portfolio with a lot of customer attractive features, best-in-class quality, and this will further strengthen our position in the international markets.

This year, you will see new products from the company, both in ICE and in EV. Coming to IB 3-wheeler, we are expecting Africa to have muted growth in the first half and expect recovery during the second half of the year. We could see positive momentum coming from LATAM and Southeast Asian market.

On EBITDA, I am very sure all of you would have seen during the last 5 years, company was able to consistently improve. 2019-20, EBITDA was at 8.2%, and now this quarter, we are at 11.3%. Continued focus on cost reduction, continued growth with new products, premiumization, strong brand and IB has helped the company to achieve this.

Company has invested in various digital technologies, software, electronics, and innovation across areas to improve customer experience, retail and service management, manufacturing supply chain best-in-class features to all our new customers and new products.

On commodities. Last year, we could see softening of commodities. There are some increases during this quarter, but we are pretty confident that with the kind of product range what we have, and sustained focus on better product mix and cost reduction initiatives. We are confident that our EBITDA journey will continue to improve quarter after quarter.

Ownership experience, product quality, cutting edge technology and the customer delight factors coming from J.D. Power. We are very, very confident that with Apache, Jupiter, Jupiter 125, iQube, Raider, Ntorq and the Star range in HLX and TVS King and Ronin, we will continue to grow faster than the industry, both in domestic and international. Thank you.

Moderator: Thank you. We will now begin with the question-and-answer session. The first question is from the line of Chandramouli Muthiah from Goldman Sachs.

Chandramouli Muthiah: My first question is on the PLI scheme comments that you had made in the prepared remarks. So it appears that across the industry, there's been between 3% to 4% price hikes after the FAME II subsidies have been reduced. And now that you are eligible for PLI scheme subsidies potentially 13% to 15% subsidies going forward. And there's more iQube products on the way in terms of leveraging the EV platforms? Just trying to understand what sort of time frames you have in mind for a potential positive EBITDA or EBITDA breakeven in the electric 2-wheeler business, just keeping these factors in mind?

K. N. Radhakrishnan: There are two important points in the EV space. Thanks to the PLI scheme, I think that will help the company. We are also now based on our learning in the market, the iQube will have more affordable, multiple options to the customers with the different battery capacity to provide appropriate range and price combination to our customer because that is very, very critical. This is one.

Second, as I told you, we are positive in contribution. At this point of time, since we are investing in many new products, I think we need to continue to invest in R&D, technology and digital

analytics in this area. But I'm pretty confident that the new product with domestic and then going into the international market, both developing and developed, systematically, we can increase the EBITDA and we can first move into positive territory. But what is heartening is the positive contribution.

Chandramouli Muthiah: Got it. That's helpful. My second question is just on the comments you made on more options to be available to customers on the iQube. So just I think in the past 2 to 2.5 years, we have spoken about rough run rate of potential one new launch or one new product refresh on the 2-wheeler side per quarter. Is that the sort of run rate we have in mind for FY '24? And if you could just give us some colour on what to expect for customers from TVS in FY '25 on both the ICE premium as well as the electric 2-wheelers pipeline?

K. N. Radhakrishnan: See, the more options on the current iQube will be available very shortly. The new product, whatever I highlighted, the new products you will see in this financial year, both in ICE and EV, okay, they are in advanced stage.

Chandramouli Muthiah: Got it. That's helpful. And just lastly, a couple of housekeeping questions. If you could just explain the negative other income this quarter, where that's coming from? And then also just the spares and the exports revenue for the quarter, please?

K. Gopala Desikan: Sorry, I was trying to understand the question. See, the negative INR46 crores is mainly because of a notional loss on fair valuation of investments held by the company. In the past, the fair valuation gain was accounted in the last year. And if you see the last quarter, the other income was positive at INR70 crores where we had a realized gain on sale and notional loss on fair valuation of investments. And this quarter, there is a loss which is notional with regard to INR46 crores of fair valuation of an investment held by the company.

Chandramouli Muthiah: Got it. And just the spares revenue and the exports revenue for the quarter, please?

K. Gopala Desikan: Just a minute. Spare parts and then exports, correct? I think the international business is about INR2,038 crores. Spare parts for the quarter is about INR815 crores.

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

Aryn Pirani: So my question, again, is on the EV side, but on a potential launch timeline for the 3-wheeler EV because I think that is also something that we have been working on. So can you give any timeline as to by when we are thinking of this launch and whether this will be mostly a domestic focused product? Or are there plans to export that also whenever we do launch it?

K. N. Radhakrishnan: It is also in the advanced stage and these products on EV will be not only for India, but also for many of the markets in the international market.

Aryn Pirani: Okay. So this financial year, should we expect the 3-wheeler EVs?

K. N. Radhakrishnan: Yes.

Amyr Pirani: Okay. Secondly, on the ICE side, a 2-part question. The Scooters including ICE scooters as a whole have still continued to grow despite EVs, how is the difference between the 110cc and 125cc? Are we starting to see some pressure on the 110cc scooter, and what's your expectation going forward? And secondly, over the last few years, you have launched quite a few ICE products and addressed a lot of the white spaces. So when we are thinking of more ICE launches, is there any specific segment that you are looking at for the next, say, 12 to 18 months on the ICE launches?

K. N. Radhakrishnan: I'll go step by step. I think overall, scooter, according to me in the industry, the segment share of scooters will go up because scooter have got exponent advantage and we should know that current 30%, 32% will go up. So expansion in the scooter category will definitely happen. Okay? And that will have both ICE and EV. This is number one.

Number two, the customer when people have 110cc and 125cc, according to me both will grow. The reason is 2-wheelers have got the unique advantage. And especially scooters have got the unique advantage of both men and women and both urban and semi-urban. And it's also now getting into rural because the road infrastructure, definitely in India is improving now. So that is one of the critical reasons why scooter category is growing ahead of any other categories.

Number three thanks to the population and the demography, I think those people who are in 110cc, they want to upgrade, and they will move to 125, okay? And this is not natural, okay? But more people will get into 110cc, because there are enough young people who wants to start the 2-wheeler experience.

And 2-wheelers, because the public transport challenges and India growing in the population. And you know the flexibility what a scooter provides even in urban cities. So I'm of the view that you will see growth in both 125cc and 110cc, okay? Because of the customer segment, demography and the opportunity to grow and flexibility what it offers. I hope I have answered you.

Amyr Pirani: Yes, sir, that's very helpful. And sir, if you could shed some light on potential launches on the ICE side. Is there a particular category that we should be looking at?

K. N. Radhakrishnan: The opportunities are there. Significant opportunities are there, I can tell you. And we constantly look at the white spaces and this will be 2024-25 will be a very, very exciting year. That's why I said you will see both in ICE and in EV, you will see launches from the company, which are fairly in the advanced stages.

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

Pramod Kumar: And my first question is more of a follow-up on spare parts because we've seen that despite having probably the fastest revenue growth or volume growth in the industry for the last 5, 10 years, your spare parts growth is not above the trend line because we've seen some of your peers grow their spare parts exposure from like 8%, 9% to somewhere like 14%, 15% of revenue. But for you, spare parts is still well below the 10% and which is average. So is there something

which you're leaving on the table here in terms of potentially doing more spare parts, which can help the business?

I'm just trying to understand or reconcile the divergent trends on spare parts in the last 3, 4 years between you and the peers. So, if you can just help us understand this aspect better.

K. N. Radhakrishnan: Always I respect my competitors because I learned from them quite a lot. On ours, I always look at we have hub and spoke model, and we look at the primary sales, secondary sales and the stocks. So based on that, when we look at it I'm not saying that we are meeting full demand, but our service levels I don't think our customers have to wait for spare parts. So we look at -- but it's appropriate in the market and we are able to grow.

Maybe there are opportunities to grow, but we will always keep the retailers and the operate part stockists and our dealers with the right kind of stock because it's very, very critical that we should not overstock the people, and it should work as the full system. That is what we focus on. Okay. Definitely, the opportunities are there to grow. But we are not missing from the customer satisfaction point of view in terms of the spare parts.

Pramod Kumar: And second question on the electrification strategy. Because what we see is like your competition have done multiple launches, multiple rounds of price cuts, discounts and all of that. And you've been far more disciplined in that sense and the market share has also had a much better than what one would have feared given the competitive landscape. So how what explains this? And how should one look at the kind of addressable market expansion, which you can aim for with new launches what you're talking about?

And related to that is on the 3-wheeler opportunity because more than 90% of your 3-wheelers are exported. And domestically 3-wheeler ICE franchise has not been that great. And how could that change with the electrification shifts? And also if you can confirm whether it's you're going to be foraying into the cargo 3-wheelers as well with the electrification E3-wheeler platform launch?

K. N. Radhakrishnan: See, E3-wheeler will definitely give us an opportunity in the domestic market. And there is a great opportunity for us in the domestic 3-wheeler space. On the overall EV strategy, we always look at the customer and we can give them that's why I said you can look at what kind of options multiple options with a different battery capacity on TVS iQube and appropriate range with price combination to our customer because it is very, very important that the customers respect the brand, they look at overall engagement with the company and overall going forward.

So while there may be challenges, we believe that it is more important to build the brand in a big way, and we are on the right track. However, from the learning in the market and the customer requirements, I think we will have more variants and multiple options for our customers. That is the way we look at it.

Pramod Kumar: So on the 3-wheeler side, sir, domestic, how big that opportunity could be? Because you've done very well on the export side, taken market share meaningfully. So how big could be the 3-wheeler domestic opportunity here sir?

K. N. Radhakrishnan: It's a very important area. We will definitely focus this year to improve our presence in the domestic market with the new product launches in EV. So we will definitely focus on that.

Pramod Kumar: Last question to Desikan sir. Sir, on the recent nonconvertible debenture. If you could just help us understand the thought process behind that because you do have a INR1,400 crores of debt on the balance sheet when you're committing to a large payout. So how should we as analysts look at this commitment? And what does it imply for your capex requirement investment going forward? And also on the cash flow implications. So if you can just help us understand the thought process there.

K. Gopala Desikan: Sure. Before getting into this specific question, let me just try to give you an overall picture. Last year, we have generated an operating free cash flow of around INR2,300 crores. And after meeting the capex and the investments, whatever we have done overseas, I have reduced my debt by INR1,000 crores. So that's the first important point that after considering the capex after considering my investments, I have repaid, reduced my debt by INR1,000 crores. This is the first thing.

Now coming to what we are talking about, this NCRPS nonconvertible redeemable sorry, non-convertible preference shares as a bonus shares. What we are contemplating is an issuance of around INR1,900 crores, which carries a coupon of 6% and this is subject to NCLT process where approvals will be obtained. And it is a bonus. We do have sufficient reserves, and this is payable after receipt of NCLT order 12 months after that.

Therefore, this outflow is expected to happen 18 to 24 months from now, and we are very confident of generating cash flows, which will be met out of the free cash flow generated by the company. And this is a bonus to all the shareholders without exception.

Pramod Kumar: And sir, what is the implication on your capex and investments for FY '25? And also, if you can talk a bit more about your subsidiary performance ex of financing, basically Norton and the European operation as to how are they shaping up because we are losing money there. So what is the outlook going forward there for FY '25 sir?

K. N. Radhakrishnan: Most important is to look at the Norton, which I highlighted. We are designing, developing and please understand in this financial year last financial year, we have invested almost INR88 crores on design and development, which is completely considered as an expense during Q4.

So these investments, I'm very, very sure that we will have a series of products, which definitely is going to help Norton. It's a brilliant brand. And once we have the clear product pipeline, and I'm very sure that you will see this product hitting the market towards 2025-26 financial year. And kindly give us a few more quarters because very, very critical in the premium and super premium to have a good set of products. This is number one.

And the other subsidiaries like European by companies, all of you know that Europe's economy continues to have many challenges, which is affecting all industries, including our SEMG and other companies. Okay. And the selling season has started, okay? And we are very sure that this

year, the losses will come down comparing the previous year. But these are investments for future. So we have to look at it in a comprehensive way.

Pramod Kumar: And sir, to sum it all, do you still expect to continue to improve your profitability with all these headwinds and tailwinds what you talked about going to FY 2025-26?

K. N. Radhakrishnan: You have seen our EBITDA journey from 8.2% to 11.3%. And you have seen our top line growing. You have seen our market share market the overall volumes growing ahead of the industry. So definitely, this journey will continue. And the way we have continued to invest in our people, in software, in electronic, digital, analytics, I think these are all investments for the future. So we will continue to invest in the right areas, including the brand, yet grow our EBITDA.

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

Gunjan Prithyani: Just following up on earlier question itself. Can you share guide what will be the capex and investment needs for fiscal '25, including Norton and the European bicycle business as well?

K. N. Radhakrishnan: Capex will be around INR1,000 crores because it is including all our ICE and EV and all the new products. And our investment outflow will be slightly lesser than the last year, maybe around INR1,100 crores to INR1,200 crores, which includes TVS CS also, we will be investing slightly higher than what we said, we maybe investing about INR300 crores to INR400 crores because there are some latest changes in the capital adequacy ratio and norms prescribed by RBI, so for unsecured lending, right, Desikan?

K. Gopala Desikan: Absolutely right. Because the recent circular where we need to have more capital requirement with regards to unsecured lending. So this has necessitated an additional investment of INR200 crores to INR300 crores overall, not additional, overall investment this year, INR300 crores.

Gunjan Prithyani: Okay. Got it. And sir, is it possible to sort of we know the performance of TVS Credit. And of course, it's doing very well, you pointed INR500 crores odd PBT. But is it possible to sort of also give us a breakup of how much is the loss in Norton, which I which you said that there will be a product cycle, which hits in fiscal '26. So, I think that we are very comfortable with that, there will be a product coming through. So, in TVS Singapore, the loss does seem very big. But if you can split it with between Norton and the rest of the subs, it will help us gauge what is the impact of Norton, and which will reverse going ahead?

K. Gopala Desikan: Norton is around INR80 crores for this quarter. And as explained earlier, all these have gone only for development-related expenditure, though for accounting compulsion, it is accounted as a loss. But otherwise, all the efforts, resources and money are spent only for the development-related expenses, which is what KNR explained, in the 4 to 6 quarters, things will settle down with the product launches there. So that's how it is.

Gunjan Prithyani: Got it. And second question, sir, is on Apache. You did speak about 125cc Raider, and all have done really very well. But Apache seems to be losing a little bit in the premium segment. What

is the thought process there? Are we looking to sort of launch more variants in that segment as well or do some intervention? Any thoughts around that?

K. N. Radhakrishnan: One correction. Apache has done extremely well. Unfortunately, VAHAN doesn't give category-wise split. But if you look at overall Apache has done extremely well. You would have seen our even in April last year also, we have done extremely well. Apache is very well-respected brand today. So we are happy, and you will definitely see these are brands where definitely, you will see new variants, new products because one of the strengths of TVS is to constantly give us you would have seen RTR, 310, so definitely, you will see the new products and new variants, okay? Closer to the launch only I can give you exactly split. But that's why I said 2024-25 will be an exciting year in terms of total EV and ICE launches.

Gunjan Prithyani: Okay. And lastly, sir, any comments on the rural on your moped portfolio because you did sound a bit more optimistic on the industry in your initial remarks. So are you picking up anything on the rural side or lower end bottom of the pyramid recovery?

K. N. Radhakrishnan: Rural slowly and steadily changing. I'm able to see some recovery happening. I'm hoping that this year, even though we are all going through very, very high temperature, severe heat wave, I am expecting this year monsoon to be normal. I think that will definitely help the rural to move much faster. So 2024-25 we are hoping that you will see better recovery from rural unlike what we have seen in the last year.

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

Kapil Singh: I just wanted your thoughts on EVs in terms of the operating environment and also profitability. On one side, we are seeing a drop in costs. At the other side, we are also seeing market pressures. So how is your profitability evolved through the year? Is it on an improving trend? Is it steady? If you could give some colour?

K. N. Radhakrishnan: See, what is most important is what I highlighted. TVS iQube is one of the preferred choices by the customer, and it is definitely the customers are extremely happy, especially the owners are extremely happy. This is number one. Now we are also planning to come with variants depending upon the customer usage of multiple choices to the customer because there also customers have got different range requirements, battery capacity requirements. So this is also second.

Third, we will also come back with the new products this year. And as I highlighted, we have started now exporting last year. I'm overall very confident that the top lines will systematically go up. Of course, there are headwinds in terms of unprecedented discounting, but we want to be very steady, and we will look at the customer. And we are looking at a very smooth transition of putting more products, looking at the customer segment and growing the market, okay? And I'm very sure that 2024-25, you will see more of that, and we will systematically and build it up.

Kapil Singh: Is it profitable, sir? Or at this point, it is diluting the margins?

K. N. Radhakrishnan: I told you; it is an investment. I don't look at it as a dilution at this point of time. Any investment, initially there will be challenges. But the good news is in contribution wise it is positive. When you invest behind you start looking at the new products and you start growing the top line. And also, we are investing in many of the technologies, which will be also the useful price.

For example, whatever I spoke about the digital connectivity, many of these things are required from the customer, whether EV technology or ICE technology. So these are all investments, not only for EV in my opinion, this will also help our ICE portfolio. So overall, whatever we are investing in software or in electronics or digital or connectivity or any kind of such new technologies will be definitely useful to delight the customers in the overall portfolio of TVS.

Kapil Singh: Understood. Sir, you are also observing the customer behaviour very closely. Just wanted your view like over the next, let's say, 5 years, do you see a point where ICE scooters as the market starts to decline, and it starts shifting to EVs? Or do you think even in 5 years, both EVs and ICE scooters will continue to grow.

K. N. Radhakrishnan: My first opinion is this 30% or 32% of the scooter category will further expand, okay? It will definitely go to 35% and maybe 40% in the period, what we are talking. So according to me, there's a great opportunity to both grow ICE as well as EV because customers will choose the technologies and depending upon their convenience and comfort, they will choose whichever technology. According to me, customers are not -- they are agnostic to the technology. They have usages. Depending upon the usages, some people will prefer the EV, some people will prefer the ICE. So we should be investing in both and making sure that we capture this opportunity on both EV and ICE.

Kapil Singh: Sure, sir. If you could give just finally some data points on price increases taken in Q4 and Q1 and also the direction on commodity price movement.

K. N. Radhakrishnan: Q4, I don't think we have taken any price increases, just give me a minute. Yes, I don't think we have taken up any prices in Q4. We have taken some marginal price increases, I think, in the month of April. I think about 0.3%, something like that, we have taken up, because there are some increases in some of the commodities, not so high, but very, very mild. So we have taken about 0.3%.

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

Raghunandhan N. L.: Sir, the FY '25 expected to be a healthy growth year in domestic market. I wanted to get a little more sense on the rural side. How do you see the rural recovery to pan out? And how would that help the entry-level segment where you have products like the Star City is? Would you expect that segment on a low base to see a similar growth compared to industry? Or would you still feel that scooters and premium executive motorcycles will do better than the overall industry growth?

K. N. Radhakrishnan: First, I will answer about rural. Like I said, rural we are able to see some positive momentum. My assumption is this year, the monsoon is likely to be normal. That will help in more positive confidence in the rural market. Already, there are no closures. Now it is the activity level are far, far higher. And rural is more self-employed if you look at it. And there, self-employment is

moving up now. And if you look at post-COVID, the customers were postponing the buy, I think they will come back. That is one key hypothesis this year.

But please understand rural doesn't mean that only entry level. okay? Today, rural India, if you look at smartphones, you compare, so you can't say rural means entry level. There also, they are very aspirational, and they will look at products like Apache or Raider or Ntorq, I think they are very aspirational.

There are set of customers who are budget customers. They are very clear. They look at the price tag and they will look at only that. And if it is more of entry level and people look at for self-employed, then they use it for utility purpose. But please understand their young generation in the rural, they want only aspirational products. So it's not, according to me, appropriate to say that rural means entry level. okay? So this is my understanding of the customer segment in the rural.

Raghunandhan N. L.: And roughly how big would be the rural portion?

K. N. Radhakrishnan: Retail financing also making huge impact in the ability of these customers to look at a little bit higher price, better in terms of aspirational product even in the rural.

Raghunandhan N. L.: Got it, sir. And so that premiumization helped by retail financing, how would be the share of rural in your overall domestic sales? Broadly, would it be 45%, 50%? And also if you can share the financing ratio.

K. N. Radhakrishnan: Financing ratio currently is around, just a minute, it's around 56%. RF penetration for TVS Motor is about 56%. This is organized. I think there will be some local financing also happening on top of it, which is depending upon the dealer and the local financing company. But 56% is a healthy number. And I think rural also similar in terms of financing.

Raghunandhan N. L.: Got it. And the share of TVS Credit?

K. N. Radhakrishnan: TVS Credit is about 40% in this.

Raghunandhan N. L.: Got it, sir. And rural share in your domestic sale, would that be in the range of 45%, 50%?

K. N. Radhakrishnan: Yes, around that. Because like I said, the rural the composition of our premium product scooters, we are also seeing they are also moving well. And the infrastructure investment in the rural is also helping this. Today, the number of good roads what you see in the rural and the speed at which it is getting implemented is also improving. So that is also helping 2-wheelers.

Raghunandhan N. L.: Got it. And sir, like on the executive premium side, you have done very well. And one of the lucrative segments for the industry is cruises, Ronin is selling about 2,000, 2,500 units every month. So how do you see or how do you target improving position in cruises in terms of products, network, riding ecosystem? Would you bring more new products under the Ronin platform or Norton brand in FY 2024-25?

Moderator: Sorry to interrupt you, sir. May I request you to join the queue for your further questions.

- Raghunandhan N. L.:** Yes, that was my last question.
- K. N. Radhakrishnan:** Ronin has started doing well, and we are very confident that it will grow further. These are opportunities for TVS because this is a space where we have just started, okay? And there is great opportunity in this category.
- Moderator:** The next question is from the line of Sonal Gupta from HSBC Asset Management, India.
- Sonal Gupta:** Congrats on your consistent performance and improvement over the years. Sir, just on trying to understand on the EV side, right, like you mentioned that there is clearly a very aggressive price competition happening in this space and that has sort of dented your market share as well? Although, I think it's still a respectable performance, but just trying to understand if the environment was to persist like this, then how do you plan to address this? So will you be addressing this through a variance which narrow the price gap? Or what is going to be the strategy for TVS in terms of the EV 2-wheeler space?
- K. N. Radhakrishnan:** Two things I wanted to highlight. If you look at our March and April, the FAME II went into the EMPS, and we were very clear. So we moderated our supplies into the market because we don't want any of our dealers to be under pressure. And post that, April, you have seen our dispatches and now the transition is almost done, and our market share almost every day, you will be seeing our market share going up, okay? This is number one.
- Number two, based on the customer understanding, we want to also offer at whatever I highlighted, multiple options with the different battery capacity, and that will also help the customers with appropriate range and price combination. That is the second strategy.
- Third strategy is the new product. Fourth strategy, we are also going to step by step increase availability in India, overall India. And fourth and fifth strategy is going to be getting into many developed markets and developing markets. So it's a very systematic approach, how we are going to build it up. And we are investing behind technology, people, software, and many of the things are completely designed and developed by us. So we are pretty confident that this is the right way to build it up.
- Sonal Gupta:** Got it, sir. Sir, just on the capex and investment side because this has consistently been at fairly high level of around like INR1,000 crores for the last few years and again, investments in excess of INR1,000 crores. So could you give us some more sense, right, like how much of this capex is product development versus, like capacity enhancement versus some localization, just trying to get more sense on where the money is going, right?
- K. N. Radhakrishnan:** See, most of them are in the new product development. Because manufacturing, we did about 4.2 million, and we have capacity up to 5 million. But in the case of example, some of the EV, we have our battery management system, and we have the battery cell and battery management inside the company. So we have established lines there. So I would say that capacity enhancements related to the new product, maybe internally about 20%, remaining about 60%, 70% maybe in the new product development. And, we are investing behind digital and technology.

This is one area we are also focusing. So overall, if you ask me, more than 80% will be new products, digital, new technologies. Maybe about 15% will be on the manufacturing line because capacity is not the problem. But EV, there are investments on battery management systems, TVS motor, for example, we have battery line inside. So I'm giving you a broad estimate.

Sonal Gupta: Right. And similarly, on the investment side, like you mentioned on the TVS Credit is going to be about INR300 crores and maybe INR300 crores, INR400 crores and is going into Norton as well given the current run rate of loss that we are seeing.

K. N. Radhakrishnan: Absolutely right. About INR400 crores in TVS CS, maybe INR400 crores of Norton and the other new projects, whatever we have started, they need some supplementing. So all put together about another INR400 crores. So you can say INR400 crores, something like that.

Sonal Gupta: Got it. And just lastly, like you've said that international expansion like you're looking like you launched TVS X in Europe. So like, is that going to be a calibrated thing? Or are we investing significantly for that as well in terms of the international and developed market expansion?

K. N. Radhakrishnan: At this point of time, we are starting with some of the new products, whatever we have, but more we get into those markets, we have to look at and understand that we are trying to get good distributors there and then try to leverage the existing products. But going forward, maybe we may have to look at some new products, but we can always leverage our products from India. We can look at the EV, we can also look at Norton. So the range and the kind of product what we can get from India, Indonesia and EV plus Norton. That is going to give us one of the best ranges and which we can look at going forward in the developed market.

Can we take the last question, please?

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

Pramod Kumar: And sir, just some clarification on the new electric 2-wheeler launch. I just want to clarify that iQube is the existing product where you are launching new variants and there will be another EV platform for 2-wheelers. Is that understanding right, which will get launched this year?

K. N. Radhakrishnan: See, iQube I said, you will see more variants depending upon the customer need or range, okay, that you will see immediately. But the new products, what I highlighted is on both, that will be in EV and ICE. That will be during the financial year.

Pramod Kumar: Okay. So we're talking about 2 different products, yes, that's good. And sir, on CNG, any thoughts, sir, on the 2-wheeler side because there is increasing CNG distribution, which has been focused by the government. And do you see opportunity for CNG as a fuel on 2-wheelers?

K. N. Radhakrishnan: I think we have to closely look at these are all opportunities, multi-fuel, EV is one such option. CNG is another option. Already we have presented CNG 3-wheeler, okay? And flex fuel is another option. So we have to look at multiple options, okay? Once we are very firmed up, then I can share with you more details about which are the products and how we are looking at.

- Pramod Kumar:** So okay. Just to understand, just to confirm it, you have the capability on the R&D side, but you will act on it based on how you see the customer response. Is that understanding right?
- K. N. Radhakrishnan:** The strength of TVS is strong R&D. You have seen the strength of R&D and you have seen the kind of product design and development capabilities. And the way we have launched the products and how they are successful, that is the capability of TVS.
- Pramod Kumar:** Yes. One question on the Raider side, sir, because you've talked about increasing aspiration of rural customers. Is there a data available with you for the 40-odd-thousand Raider what you sell? How many of them are first-time buyers of motorcycles or first-time buyers of a 2-wheeler as a customer?
- K. N. Radhakrishnan:** My experience shows that their biggest challenge is the budget customers, they look at only the price tag. But there are enough proportion of customers I'm seeing more and more they look at the premium products. And the retail financing is one of the enablers which is helping them to look at definitely, for example, Jupiter 125, Ntorq and maybe entry level Apache 160 2V, that kind of product, okay? They may not look at initially, but they are able to look at products like Raider definitely. So that transition is happening in India.
- Pramod Kumar:** The transition is happening. So the comeback in the first-time buyer may not necessarily be only in 100cc commuter motorcycle. As and when the rural markets revive and demand comes back, you could see that coming even on the 125cc product category also, right? Like what we've seen in...
- K. N. Radhakrishnan:** The best analogy I have seen is smartphone. So India, it is aspirational, even rural is also aspirational.
- Pramod Kumar:** And sir, last one request, like some of your peers also call out the losses in the EV side separately because it's an industry which is not going to be turning profitable any time soon. So sparing that out gives us a better visibility in your underlying ICE margins where you've already expected reasonably. But and given the fact that this quarter, you had elevated EV sales and higher discounts also towards March. If you can just help us understand, has ICE margins moved to the 12% to 13% corridor as we speak because you do have reasonably high EV exposure.
- K. N. Radhakrishnan:** We look at EV as an investment. And totally, we have improved quarter after quarter our EBITDA last year. Our objective is to delight the customer. That is why you have seen the J.D. Power results. And quarter after quarter, you have seen with right investment behind product, brand, people, capability, technology, we are able to deliver consistently our EBITDA. So that is the way we look at it. Okay?
- I would like to thank all of you. I think I wanted to highlight that 2023-24, thanks to all the customers. We have got the highest revenue of INR31,776 crores and highest profit of INR2,781 crores. Our quarterly operating revenue grew by 24% and with our unwavering focus on consumers, quality, we are confident of continuing this growing ahead of the industry.



*TVS Motor Company Limited
May 08, 2024*

We will continue to leverage scale benefits and focus premiumization and sustained material cost reduction, which will enable us to improve our EBITDA. Yet, we will invest in the right technology and people and products. We are very happy that we are continuously improving our EBITDA over the last 3 years. And thank you, everyone, for your confidence as we continue to deliver consistent performance, top line and in EBITDA. Thank you.

Moderator:

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