



**TVS Motor Company Limited**  
**Management Call with Edmond de Rothschild**  
**February 17, 2023**

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<b>ANALYST</b>	<b>:</b>	<b>MS. PATRICIA URBANO, EMERGING MARKETS PORTFOLIO MANAGER - EDMOND DE ROTHSCHILD</b> <b>MR. ARCHIT GIRDHAR, EQUITY ANALYST - EDMOND DE ROTHSCHILD</b> <b>MR GUNJAN PRITHYANI, RESEARCH ANALYST – BOFA SECURITIES INDIA LIMITED</b>

K Gopala Desikan Good afternoon.

Moderator Hi Sir. How are you?

K Gopala Desikan All fine. How are you?

Moderator I'm fine, thanks. Thanks for accommodating this and good to see you. It's been a while I've seen you. To be honest, I have met you many years back.

K Gopala Desikan Met your Boss in Chennai two days back.

Moderator Really. Who you met?

K Gopala Desikan One second, she also mentioned your name. I will come back to you.

Moderator Ok, no problem, and really thanks for accommodating this and we are just waiting for Patricia to join. Our chat is already there. Maybe once she joins I'll let you know. I'll introduce you guys and let her take the call. Yeah, but where? Where are you all taking the call from?

K Gopala Desikan Shall we start?

Moderator Patricia is joining, right. So just give Me 2 minutes. I think they're joining in. Archit, it's Patricia joining in now.

Archit Patricia is gonna be joining

Moderator Hi Patricia, you're on.

Patricia Hi, good morning, Gunjan.

Moderator Hi, Patricia. Good to see you.

Patricia Hi, pretty good. Sorry there was issue on my teams

Moderator It was an issue on our side because, you know, we were not able to come on that platform. So I requested this change in the last moment. Apologies for that. But let me not waste much time for you guys and you know I'll just introduce you. We have Mr. KNR, who is the CEO, TVS Motors and we have Desikan Sir. He is the CFO and you know it's always good engaging with them. So you know I'll let you guys let you take over the meeting. Sir, Patricia is from Edmond Rothschild. She is emerging Market PM and this Archit as well, who works with Patricia. Over to you guys.

K N Radhakrishnan Can you? Can you hear this?

Patricia I was waiting there. Yes, thank you very much for organizing the call. Thank you very much for your time to introduce your business.

K N Radhakrishnan Can you hear?

Patricia We have also our India fund dedicated to India. I would like to Archit to take over this conferences. Think again for your time for doing this conference for us and presenting your business actually it's the first time that we have this call with TVS.

K N Radhakrishnan Can you hear us? Yes, yes. OK, so good afternoon, good afternoon.

Archit Yeah. Good afternoon and thank you. Thank you for taking this call. And as Patricia mentioned that this is the first time you're having a call with the TVS management. So we just wanted to, you know, get some idea of the business and strategy. So I'll, I'll start with some questions unless you have something you want start by.

K N Radhakrishnan No, no, you. You better start with the questions for time management. Because you know the basics of TVS and be little louder please. Little louder that way, that will help.

Archit Sure, sure. So like my first question is around the EV business because it has warranted attention in the last few quarters. So like you doubled the guys for the year around close to 25,000 for a month. So can you please explain you how you're expecting to reach that number? I know you're looking to expand the network, but I would also like to understand is the supply chain aligned for that ramp up given that we are already delivering the premium models almost to demand.

K N Radhakrishnan See every EV business like I have always highlighted first is first is to get the product right? And IQUBE has been a fantastic product, which is really, delighting the customer, and currently we have about 200 outlets around, ICE outlets and our bookings are little more than close to 30,000, I can say 27 / 28 because we have stopped the booking primarily because, we have to deliver so the focus is on only on delivery. And month after month, we are able to ramp up better. Thanks to the supply chain and we are moving towards that 25,000 in the month of March. This is one. From the point of view of the product, it is like any other scooter; But what is most important, is it got a lot of digital connectivity, it has got many connected features in IQubes and that is really delighting the customer. So it's a mobile on ramp you know digital on mobile system. So consumers are liking both. Now, coming back to our overall EV strategy, we have a plan to deliver segmentwise products. Because there are many segments in India, if you look at the ICE, you have seen very different segments. So you will see. Many more launches from the company in various quarters.

Ok. We are also getting ready with our three Wheeler on the EV side. It's going to be a great opportunity for TVS, first to expand in India 200 dealers it can go up to much, much higher level. Second deliver these new products to delight the customer in various segments. And then start international because there is the requirement in the international there is interest on this product but without satisfying the local demand, we don't want to start it, so possibly next year we will see we're getting into some of the markets.

Archit Ok. Thank you for that answer. I was just so if I understand it correctly for now, you don't see any roadblocks in the supply chain because I think in the last call you mentioned there was some problem with the Apache in September which got sorted. So I was just trying to see, if you see any major risks to ramp up in, in the future, but you don't see any.

K N Radhakrishnan ICE product, primarily we use electronics. But then the vehicle significant proportion of within the software or connected cluster or motors controllers we have more and more EV parts. Their ramp up because month after month we have to move to, when I spoke about 25,000 it is getting thousand per day matching sets. We are not yet there. We are not yet there. But everybody has

promised to support us, to get 1000 per day. So that is the focus which is going on.

Archit OK, sure. And you like mentioned some something about different segments and like regarding also the collaboration with Amazon and I believe the company commented something along the lines of intent to expand around across multiple segments. So, I just wanted to get your idea about your plans for different segments of the EV portfolio like does the company plan to make the three wheeler available through direct to customer channels or by when can we expect the products in different segments?

K N Radhakrishnan I can give you an analogy. If you look at the feature, for example, you have 110, you have 125 Jupiter, you have Ntorq, so same way if you look at Apache, there is a 160, 180, 200, 310.

There is a warning and if you mind map the type of customers, I think each customer the requirements are different. Their expectation is different. Their performance expectation is different.

And also you know, if you look at 310 Apache or Ntorq, the customers are very. OK, very young means around 25, 22, 23 that kind of age group. So we will have products if I look at it is used by everyone, practically everyone. It's a common. Commuter scooter EV. Ok. Beyond that closer to launch? I'll be able to. Give you more. More insight because it is really confidential and we want to really excite the customer just before launch.

Archit No, no. Yeah, that makes sense. But still, thank you. Thank you for that answer. OK. So my next question is around the subsidies, the same subsidies and like with the great acceptance for iQUBE and no doubt it's a great product. But with that sort of response. It's a double edged sword, right? they have to be on getting shorter, may be 7-8 months financially, 24th.

K Gopala Desikan Your voice. Is breaking. Your voice is breaking.

K N Radhakrishnan Your voice is breaking

Archit OK

K N Radhakrishnan Yeah, OK. OK.

Archit Yeah, yeah, I'll switch off my video for a second. Maybe that makes it better. So yeah, so is it, is it better now?

K N Radhakrishnan Yeah, we can hear you, but you can little bit be louder.

Archit Yeah, yeah, sure. So my question was regarding the subsidies, the same subsidies, and I just wanted to understand, since we have received such a good response for the iQUBE and you're coming up with the new models. And we're expecting the answer with that sort of response, the runway for subsidies, it's get keeps on getting shorter, may be around 7-8 months now on like if you look at the optimistic side. So just wanted to get the understanding of the strategy once the subsidies are not extended. And secondly like with the tightening of the battery standards, do you think that this could also like have any material cost impact going forward?

K N Radhakrishnan

See, subsidies are, first of all, thanks to the way government has put support. When you need such major transitions, you need, you know, competitive price to change the minds of the customer. So that is the reason.

Government has taken this very strong. Support in the form of faith. But in my opinion, what is most important in any business is to make sure that the customer loves your product. OK, once you, once the customer loves your product, then you are sure of the demand. Second, I can give you an analogy, when India started exports, we have almost 15% of benefit in Export. And that continued for 2-3 years and then they kept reducing the rate. And today, practically it is only 1.5%. They export the benefit what we get. OK, it is to aid, it is to support. So, if somebody assumes that FAME is going to be continuously there, it is not going to be and we are also not planned in our business plan that pain is going to be permanent feature. That is #1.

#2. What is most important is when you are present in various customer segments, the pricing will become different; the profitability becomes different. Even in iQUBE, if you look at. There are three products now 3 variants. There is a basic variant. There is an S variant and ST Variant. It's completely priced differently. And when you give higher and higher. Variants you know you can price it higher? I can give you one example. You are very sure you would have seen our Jupiter. OK, you get an equal in. Terms of price to Activa. Activa is Honda product. It is the biggest competitor in that segment. But we have been able to put very clear variants over Jupiter. We have Jupiter ZX, then you have Jupiter classic, then there is a Grande version. Each one has got certain features and certain attractive features plus technology, plus, certain look and feel itself, and price differently. When we started, 95% was the basic model today. It is 50-50. And these variants also gives you better and better profit opportunity so. This is one.

Second, You know that these products can be exported both to our current developing markets and developed markets where the pricing can be completely different. So, it will be a strategy of first growing the top line. Coming up with variants. Very clearly, having new product launched over a period of time. Exports, and please understand when the volumes go up, there is a huge opportunity to cut down the cost and I'm very sure, when we started 18650 now it is 21700. There is a chemistry change, the cost change there is going to be future chemistry which are going to come. So, everybody is continuously working on how do you bring down the per unit cost? So, it's the journey. So, I'm not so much worried about pain, not there. What is most important for any companies to delight the customer if the customer gets delighted about your product and the top line is assured, every line will come.

Archit

OK. OK. Yeah, that that definitely makes sense. And I think the, the ideology of being customer centric is what kind of garnered attention in the 1<sup>st</sup> place towards delay. So yeah, it's great to hear that you are still aligned with that. Alright, so my next question is around the fund raising part for EV business. I understand that the company they recently filed a disclosure that it's continuously exploring new value creation opportunities. So, I just wanted to understand your thoughts on like what sort of importance and implications, you think that these investments have and where does this process sit on your priority list? Is this something that you are actively working towards or is it still something that that still needs time to be finalized?

K Gopala Desikan

Yeah, this is one. We are still at the same stage of evaluating options, including to a fund raise not at close, not even decided at any level whatever that is there in the press are all, I mean it's. It's not something very authenticated. We will come

back and then we decide once the board decides. As of now, still we are exploring options only.

Archit No, I understand that. I just wanted to understand like get your thoughts on do you think it's, it's really important and or like could you see the business growing without that as well like what's your understanding of the fundraising part?

K N Radhakrishnan Fundraising doesn't have any kind of connections with the business, OK.

K Gopala Desikan And in fact, the various options I said, including your option of investing my own money, so in no way, this will stop or hamper or delay our process of EV journey.

K N Radhakrishnan See, we have a very clear road map of what kind of investment we have to put, what kind of customer segment, what kind of technology. That will continue. That will definitely continue. We are evaluating various options. That's what Desikan is highlighting. OK. And whatever is the rate, what is the best for? The overall business decision, we'll take a call.

Archit OK, OK. Yeah, sure. That that definitely makes sense. So regarding the domestic business and in your recent comments, you seem very confident about the demand recovery. But if you look at the like the trends other than the festive season, the demand has been very moderate and where you were expecting. Like a cyclical rebound. Can you maybe explain why the market was so weak and also like give your comments on like the on ground sentiments about recovery?

K N Radhakrishnan See market. We should leave this Q1 of last year because previous year to last year the Q1 showed huge growth primarily because last year we had in Q1 we had the COVID related closures. But this year, if you look at Q2 / Q3. OK, I think the demand has been moderate. I won't say it is bad. Purely purely if you look at the Vahan, which is the registration, I'm not even taking the dispatch data dispatch data, so Vahan has been around 4 to 5%, which according to me is a good start. OK, there are there are some more, some more improvements required. But one positive thing is the COVID situation, it's really, really easing out. And we don't anticipate any more lockdowns, OK. If lockdowns are not going to be there, you remember that in two wheelers, 2-3 fundamental principles with the government putting a lot of effort on the infrastructure development, roads, good roads and the public transport not being there so good, I think 2 wheeler is the most important mobility vehicle.#1

#2 more than 50% of the Indian consumers are self-employed. OK. And the efficiency and the effectiveness goes up when they have a 2 wheeler, whether it's a plumber or electrician or agriculturalists or somebody has to distribute milk or any item, he earns money everyday. OK. And on the other side premium India is the youngest country. OK, the democracy has been fantastic. OK. So on one side, you see the premium products are growing up. Industry growing up on the other side, the confidence of self-employed that there are no lock down, they are able to do their job. So I'm of the view that and monsoon has been very good. So overall the sentiment, month after month is likely to go up is my last time feedback. And it is happening 4 to 5% is not a bad. I won't say it is a bad growth given. If you look at the overall geopolitical situation, I don't think there is any country which is seeing 5% growth in this kind of situation. And you know, the economy has projected next year 6.5 - 7% of GDP growth. I think all these are going to aid India 2 wheelers doing extremely well.



Archit OK, OK. But I just wanted to like so you consider that upgradation and confidence in product has been one of the main drivers for you to improving international market share, correct?

K N Radhakrishnan And even in the international market, we always believe in customer service. So we have authorized service people, parts availability. These are very fundamental things we always closely watch. You know. Many of the market the first service comes just after two to three weeks. So genuine parts have to be there even before we send the material we send the parts. So these are all certain value systems of the company focusing on the customer and the kind of focus on product and product range.

Archit OK, OK. Yeah, sure that that definitely does make sense. I think that's, that's all the questions from my side. So Patricia, if you have any questions.

Patricia Yes, I have just some very complete just have one last question, my side, if you could just to finish the call. What's your view for TVS in five years in terms of penetration rate on sustainability of margin, what's the margin that you think is sustainable for your business? That's my last question. Thank you. And it was very overall information was very good. Thank you.

K N Radhakrishnan Yeah, I already told you about with the EV vehicles now and with the partnership with whatever we have done with BMW, there is a great opportunity to take TVS brands not only to the developing market but, the developed markets. So you will see a big drive in really becoming TVS brand global, that's number 1.

Number two, we are at 10% EBITDA. And with the customer delight and more and more new products and the revenue going ahead of the industry, I'm pretty confident that our cost will get amortized over much, much higher revenue and that will definitely translate into much better EBITDA numbers. I may not be able to give you guidance. But I'm pretty confident that the premium focus, the geography focus developed more focus that drive on cost reduction and overall, you know focus of the company on looking at various elements of cost is definitely going to help us in terms of doing better and better EBITDA above 10.

Patricia Ok, so do you have time for one more question or?

K N Radhakrishnan Yeah. Yeah, please.

Patricia Ok. Thank you. In terms of your cost?

K N Radhakrishnan Because before you ask. The final question anytime you are in India, kindly visit us. You can have a direct feel, we can host you.

Patricia Yeah, that would be great. I love to love to see the product itself haven't seen it yet. Thank you very much.

K Gopala Desikan This invite is for everyone who is now in the stream, including Gunjan.

Patricia Maybe we can organize that. But my question is in terms of you said like the materials, you put some pressure on your margin. Do you see? Like how do you see the battery evolving in the future? We have seen some experimental with Solidaire Battery for scooters in China. Do you think that? Could be something to go as well, like uh, what's your view on the coast side, especially on the, you know, dress material like that battery?

K N Radhakrishnan I think battery when we started with 18650. Now already we have moved to 21700. I think the rate of pace of change in battery cells and the technology and the chemistry, I think all are linked to the volume. So Patricia, if you ask me honestly, the most important thing is top line. How do we grow the top line? How do you make sure that I deliver all the new products whatever I have planned? If these two are done, I assure you., with every innovation, whatever we have seen, whether it is tell or BMS or the motor or the controller or the integrated VCO, you will see significant cost reduction. In fact, disproportionate cost reduction is the word I would like to say, to take this company forward.

Patricia OK. With the operational leverage, right? OK. That's great.

K N Radhakrishnan Thank you.

Patricia I thank you very much for your time and organizing. Thank you very much. Archit, I think you had everything, Gunjan, thank you very much for your nice organizing as well and I wish everyone a good weekend.

K N Radhakrishnan Thank you. Thank you. Bye.

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