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Ladies and gentlemen, good day and welcome to the TVS Motors Q1 FY '19 Post Results Conference Call hosted by Batlivala & Karani Securities India Private Limited. (Operator Instructions) Please note that this conference is being recorded. I now hand the conference over to Mr. Annamalai Jayaraj from Batlivala & Karani Securities. Thank you. And over to you, sir.

Annamalai Jayaraj, Batlivala & Karani Securities India Pvt. Ltd., Research Division - Director & Deputy Head of Research [2]

Thank you. Good afternoon, everyone. On behalf of B&K Securities, I welcome you all to the 1Q FY '19 Post Results Conference Call of TVS Motor Company Limited. We are delighted to have with us today Mr. K. N. Radhakrishnan, Chief Executive Officer; and Mr. K. Gopala Desikan, CFO. I would now transfer the call to Mr. K. N. Radhakrishnan for his openings remarks to be followed by a question-and-answer session. Over to you, sir.

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [3]

Good afternoon. Good afternoon, everyone, and it's a pleasure again to be with all of you today. Quarter 1, 2018, June 2018 total 2-wheelers during this quarter grew by 14%, scooters grew by 12%, motorcycles grew by 17%, mopeds grew by 10%. Overall 2-wheeler sales in the first quarter in the domestic market grew by 9%, exports grew by almost 44%. 3-wheeleer sales were 108%. Revenue excluding excise duty grew by 21% from INR 3,457 crores to INR 4,171 crores. PBT for this quarter is INR 212 crores compared to INR 179.4 crores of last year. Last year this INR 179.4 crores included a credit of INR 36.6 crores towards the fair valuation of TVS Credit shares. Consequent to TVSCS becoming a subsidiary of TVSM, in September 2017 the fair valuation of such investment is no longer required. Last year Q1 PBT also had a one-off EBITDA of INR 16.5 crores for the strong (inaudible) for disposal of pre-GST stocks. The underlying PBT for Q1 of last year before the (inaudible) is 159.3. When we consider that, the PBT for this year INR 212 crores represent a growth of 33%. EBITDA for this quarter is 7.4%.

Extremely happy that Ntorq is doing extremely well in the market. RTR 150 4-valve is also doing extremely well. Jupiter portfolio was strengthened during this quarter with matte silver and walnut brown. The key thing when we look at Q2 and going forward, we will continue to delivery superior value to the customer through better products, features and excellent after-sales service. We'll invest behind brands and technology. We will not resort to short-term actions which will have a blurred long-term impact on brand. Especially we will not get into discounting.

TVS has got a strong product portfolio. It's such a portfolio the company will growth ahead of the industry. We will continue to launch upgrades, refreshers and new products. (inaudible) we will strengthen the existing products with limited edition models and new colors.

Material cost is going up. We have taken adequate countermeasures in terms of cost reduction, alternate sourcing, localization, [VAV] and significant focus on pit stop reduction. And we also took up price increases during this quarter.

Export is doing extremely well and we are confident that we will continue to grow in similar lines. Monsoon so far is satisfactory and we hope that monsoon for the year will be normal. We are fully focused on the EBITDA journey and we will continue to improve EBITDA quarter-after-quarter. Thank you.

Operator [4]

Sir, we open it up for questions?

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [5]

Yes.

Operator [6]

Thank you very much.

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Questions and Answers

Operator [1]

(Operator Instructions) The first question is from the line of Kapil Singh from Nomura Securities.

Kapil R. Singh, Nomura Securities Co. Ltd., Research Division - Auto Analyst [2]

I wanted to check on the material cost and also on the realizations. When we see compared to Q4 realizations look flattish, so is -- and material cost as a percentage of sales has gone up sharply. So just wanted your thoughts that if you could comment on did we take any price hikes and how much of this is because of the mix and how much of this is due to pure commodity cost (inaudible). And then in how much price hikes you've been able to take to (inaudible).

K. Gopala Desikan, TVS Motor Company Limited - CFO [3]

Okay. See, the material cost as a percentage, what was reported in Q4 was 73.8%. And now it is at 76.2%. But last year the first quarter was at 74.6%. Now the one [NDA] related requirement based on an amendment, the price-related recovery from the customers has to be netted against the turnover, and therefore this INR 90 crores, around INR 85 crores, close to 1.8% is the indication where the material cost has gone up but overall the EBITDA has also improved because of that because there is a reduction in other expenses and a corresponding reduction in the revenue side. Therefore, in effect close to 1.8% is not on account of material cost increase, it's an adjustment based on the accounting (inaudible). Therefore the real increase is -- one second. The real increase is only -- I mean, if you adjust this, the Q4 number has to be read at 75.5% and the increase from 75.5% to 76.2% is mainly because the customs duty related impact, full quarter impact and the material cost per se have also gone up. But this is being compensated by a marginal price increase and also increased realization because of the mix. Therefore the overall increase in the material cost when compared to Q4 is only 0.7%. And I think I have answered the question. Am I right?

Kapil R. Singh, Nomura Securities Co. Ltd., Research Division - Auto Analyst [4]

Yes, so -- and do you expect that this thing has been passed on fully? Or you're required to take more price hikes?

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [5]

Price hikes we will be constantly reviewing in the market. We have done our price increase during this quarter. We have already taken another price increase during Q2, early part of Q2. So this is a very closed review that we will do. However, the full focus is on improving the cost reduction project through automated sourcing and localization and significant focus on [VAV] and also other fixed cost reduction and the benefits what we are likely to get because of the product mix improvement.

Kapil R. Singh, Nomura Securities Co. Ltd., Research Division - Auto Analyst [6]

Okay. And the second question was on the other expenditure as well, if you can highlight, well, this quarter Y-o-Y there is no growth, so is this a trend that you will see going ahead for the full year or there is some phasing in phasing out?

K. Gopala Desikan, TVS Motor Company Limited - CFO [7]

No, it's not phasing, again as explained because of the NDA freight expenses which was earlier booked as other expenses now is being removed and netted against the income.

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [8]

Equally one more feedback is the overall fixed cost also has come down because of the freight benefits.

Operator [9]

The next question is from the line of Binay Singh from Morgan Stanley.

Binay Singh, Morgan Stanley, Research Division - Executive Director [10]

So just to be clear, the freight expenses which were earlier in other expenses now is basically netted off against revenues. And that -- and apart from that there is no other sort of one-off in these numbers, right?

K. Gopala Desikan, TVS Motor Company Limited - CFO [11]

No, there is no other one-off. It's again -- we're not altering the number, it's only a disclosure based on (inaudible).

Binay Singh, Morgan Stanley, Research Division - Executive Director [12]

Correct, correct, sir. The EBITDA level is (inaudible). Yes, yes. And, sir, secondly like even if you adjust for that, if you look at the product mix, this is probably one of the best product mix that you had, very high share of Apache, very high share of exports. So within that my question is on the export side and Bajaj has also talked about it. Is there some sort of a weakness in profitability in exports because now they are more towards Africa? Like even in the annual report we do see that the export ASP seem to have come off. Is there something happening in export that with Africa share rising the margins are coming down or something?

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [13]

No, no, because the material cost is applicable everywhere, but the cost reduction and overall volume increase and there is a small marginal price increase also we done, plus the dollar benefit. All put together absolutely there is no reduction in prices in any international market. The material cost (inaudible) whatever is applicable in India is applicable because it is applicable across all the products.

Binay Singh, Morgan Stanley, Research Division - Executive Director [14]

So the export profitability has been maintained.

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [15]

Has been maintained and it is -- it will only improve.

Binay Singh, Morgan Stanley, Research Division - Executive Director [16]

And sir, just lastly on the competitive environment, in your comments you did hint that you will not participate or react the way the competition is talking about. How do you read the environment today versus let's say few months back because we've clearly seen very aggressive statements coming in from Bajaj, but at the ground level is there any sort of feedback you're getting from the channel? Or how do you (inaudible)?

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [17]

I -- again, I don't want to comment about competition. TVS, we are very confident we will continue to deliver superior value to customers through better products and superior technology and we will fully focus on customer service. The last 3 years (inaudible) TVS has won #1 position related to our customer satisfaction and service. Our products are top ranking in J.D. Power (inaudible) 4 years continuously.

TVS company, overall if you look at it, we have grown 14%. We have grown in premium category 21% ahead of the industry, scooter is 12% better than the industry. Both 2-wheelers and 3-wheelers in international we have grown 44% and 112%. Okay, so overall in domestic (inaudible) there is a challenge, but we consciously did not want to take part in the discount war (inaudible) long-term brand value. And this (inaudible) consistent value and we will continue to maintain that. And if you look at our July 2018 in domestic 2-wheelers, we have grown ahead of the industry also. We have grown 13% when the industry domestic market has grown only by 8%.

Binay Singh, Morgan Stanley, Research Division - Executive Director [18]

Right, right. I know your numbers nonetheless have been very impressive. Thanks, I'll come back in the queue.

Operator [19]

The next question is from the line of Pramod Kumar from Goldman Sachs.

Pramod Kumar, Goldman Sachs Group Inc., Research Division - Executive Director [20]

First, I had -- if you can share the breakdown of the domestic and the export revenues for the quarter.

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [21]

Just give a minute.

Pramod Kumar, Goldman Sachs Group Inc., Research Division - Executive Director [22]

Yeah. And till then can I go to the second question so that...

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [23]

(inaudible).

Pramod Kumar, Goldman Sachs Group Inc., Research Division - Executive Director [24]

So the second question is on your subsidy performance, sir, this is like the -- now TVS Credit is fully 85% subsidy of your company, so if you can just share some color on the performance of the financing for 1Q because you will provide the consolidated results only at the year end, so in the interim if you can share some color on the 1Q performance and also kind of give update on Indonesia and Sundaram auto component business so that we get a full picture of the consolidated June quarter performance.

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [25]

I think TVSCS has been a great company which is supporting the financing for TVS. The book size is growing and it stands at INR 6,500 cores now. The PBT for this quarter is about INR 43 crores -- INR 45 crores. And --

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Pramod Kumar, Goldman Sachs Group Inc., Research Division - Executive Director [26]

INR 45 crores?

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [27]

Yes. And TVS Credit (inaudible) 50% of the finances of TVS (inaudible). PT TVS, exports from PT TVS is growing. We have just now started 3-wheeler sales also. Both -- with both (inaudible) we are very confident that we'll break even this year. This is on Indonesia.

Pramod Kumar, Goldman Sachs Group Inc., Research Division - Executive Director [28]

Okay. And so is there a loss number for the quarter if you can share on Indonesia at the PBT level?

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [29]

EBITA loss is about 1 million.

Pramod Kumar, Goldman Sachs Group Inc., Research Division - Executive Director [30]

$1 dollars?

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [31]

Yes.

Pramod Kumar, Goldman Sachs Group Inc., Research Division - Executive Director [32]

Okay. And TVS, Sundaram Auto Components?

K. Gopala Desikan, TVS Motor Company Limited - CFO [33]

The Sundaram Auto Components, they have made a small profit around INR 2 crores, INR 2.5 crores and they're doing well (inaudible) last year's numbers.

Pramod Kumar, Goldman Sachs Group Inc., Research Division - Executive Director [34]

And TVS Credit, what will be the growth (inaudible) because I see the loan book has grown from INR 6,150 crores in 4Q end to INR 6,500 crores. So the PBT, and if I'm not wrong, the PAT the whole of last year was INR 114 crores, and you've already done a PBT of INR 45 crores this quarter. What will be the PAT number, sir, so that we can get an idea and analyze the performance of this subsidiary.

K. Gopala Desikan, TVS Motor Company Limited - CFO [35]

What we can give you as far as the assets under management is concerned, it has grown by 26%, and also the dispersals have gone up by 38% or 39% over last year. And PBT is INR 48 crores as against last year's around INR 28 crores.

Pramod Kumar, Goldman Sachs Group Inc., Research Division - Executive Director [36]

Was INR 28 crores, so the profit growth would also be in that order, right, more or less (inaudible) so that it's -- so it's going to be meaningfully large than last year when the PAT was just around INR 114 crores for this entity.

K. Gopala Desikan, TVS Motor Company Limited - CFO [37]

Right now I can't give you the year-end numbers, estimates and all is difficult to give.

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [38]

Growing extremely well.

Pramod Kumar, Goldman Sachs Group Inc., Research Division - Executive Director [39]

Yes. No, no, no, I meant -- I was just referring to the last year number, that's it. I was not asking for guidance on this FY '19 numbers. No, that's not my intention. I was just highlighting that with the -- based on the last disclosure and what the -- what you have on the financing website, it had a PAT of INR 114 crores for the whole of FY '18, if I'm not wrong. And you're saying that first quarter PBT itself is INR 48 crores versus INR 28 crores last year same quarter. So I was just looking at the kind of growth what you're having in that subsidiary.

Unidentified Company Representative, [40]

(inaudible).

Pramod Kumar, Goldman Sachs Group Inc., Research Division - Executive Director [41]

Yes. And domestic and export revenues, sir?

K. Gopala Desikan, TVS Motor Company Limited - CFO [42]

Domestic and export, domestic is INR 3,195 crores.

Pramod Kumar, Goldman Sachs Group Inc., Research Division - Executive Director [43]

Sorry, INR 3,000 crores?

K. Gopala Desikan, TVS Motor Company Limited - CFO [44]

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195 crores.

Pramod Kumar, Goldman Sachs Group Inc., Research Division - Executive Director [45]

Okay. And the rest is exports, right?

K. Gopala Desikan, TVS Motor Company Limited - CFO [46]

And INR 993 crores, INR 993 crores.

Pramod Kumar, Goldman Sachs Group Inc., Research Division - Executive Director [47]

INR 993 crores. And sir, this accounting policy change basically makes your percentage EBITA margin number not so comparable on a Y-o-Y basis. So what -- and going forward, would you be restating the previous year base quarter for the accounting norms or you wouldn't be doing that because it's not applicable?

K. Gopala Desikan, TVS Motor Company Limited - CFO [48]

No, no, as far as (inaudible) 115 concerned, we have also clearly stated in the press release today that we are only restating the current quarter numbers, which the law permits us to do.

Pramod Kumar, Goldman Sachs Group Inc., Research Division - Executive Director [49]

Okay, okay, okay. So the percentage -- Y-o-Y numbers on the percentage terms won't be comparable, the EBITA doesn't get impacted whatsoever?

K. Gopala Desikan, TVS Motor Company Limited - CFO [50]

EBITA will improve by a small percentage of 0.6% -- 0.12%, something like that.

Pramod Kumar, Goldman Sachs Group Inc., Research Division - Executive Director [51]

0.12% on a Y-o-Y basis, okay. And sir, of -- and the next question is basically on your -- on the demand, if you can share some color on the demand scenario for yourself because -- and also how do you look at the second and the third quarter both in terms of volume growth and where your -- given where your inventory levels are with the dealership, if you can provide some color on that. Because what we understand is there is a reasonably good pull for bands like Ntorq and Apache in the marketplace. And also export has been a new high for the last 6 or 7 consecutive months. So if you can just share some color as to how you're seeing the export growth outlook for the remainder of the year.

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [52]

See, stocks we always maintain 30 to 35 days. Now the season is coming, this year the season is between Q2 and Q3. And we are confident that in Q2 and Q3 we will do very well and overall year also we will do very well. In domestic market all the products have got a good pull and we are not resorting to any kind of discounting. Apache is doing extremely well, Jupiter is doing very well. Overall scooters is extremely, extremely good and Ntorq is also doing very well. Moped has started doing better. We have also done the electric start version of the moped into the market. So overall, we are expecting the industry also to do well, 10% to 12% industry will do and we will grow ahead of the industry in domestic. Overall, the international business, the oil prices are stable, it is at a high level, around $70, $75. And many countries where we are exporting the currencies are also stable. So the outlook on export is extremely positive and our entire portfolio is (inaudible) in many countries. We will maintain the same momentum and growth much ahead of the industry in international markets, both in 2-wheelers and 3-wheelers.

K. Gopala Desikan, TVS Motor Company Limited - CFO [53]

Pramod, one second, I just want to -- you're right, last year (inaudible) INR 114 crores, but currently I don't have the quarterly number for last year. Current year the PBT is INR 45 crores and the PAT is INR 30 crores.

Pramod Kumar, Goldman Sachs Group Inc., Research Division - Executive Director [54]

INR 30 crores PAT, okay.

Operator [55]

The next question is from the line of Hitesh Goel from Kotak Securities.

Hitesh Goel, Kotak Securities Limited, Research Division - Associate Director & Automobile Analyst [56]

So just a clarification on the freight recovery, this is 1.8% of the margin or it is INR 180 crores? Because INR 180 crores looks to a very high number, last year you did freight expenses of INR 300 crores only.

K. Gopala Desikan, TVS Motor Company Limited - CFO [57]

No, no, exact numbers it is INR 90 crores, the exact amount of price recovery the quarter adjusted removed from the other expenses and removed from the other income, I mean in the revenue. And this 1.8% what was indicated was the percentage of the material cost.

Hitesh Goel, Kotak Securities Limited, Research Division - Associate Director & Automobile Analyst [58]

Okay, okay. So basically INR 90 crores has to be added to net sales and other expenses to get to that number?

K. Gopala Desikan, TVS Motor Company Limited - CFO [59]

Correct.

Hitesh Goel, Kotak Securities Limited, Research Division - Associate Director & Automobile Analyst [60]

(inaudible), right. And then on the -- just looking at Jupiter numbers, last 2, 3 months Jupiter volume growth has been flattish. Is there some cannibalization happening because of Ntorq or there was excess inventory in the system, can you just clarify that?

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [61]

See, if you look at it when you -- TVS scooters we are growing definitely very well overall. Whenever you introduce a new product, for example, Q1 also we have grown (inaudible) any new product like Ntorq which is sharply positioned towards youth, whenever you introduce there is always an excitement from even some of the people who are coming for Jupiter. This is part and parcel of any new product launch. But that cannot be construed as cannibalization because this is initial customer excitement. If you look at the overall Jupiter, it's a lead brand from scooter -- scooter for TVS. Scooter category we have consistently gained market share since the launch of Jupiter. And if you look at our July numbers, TVS scooters have grown 25% ahead of the industry, industry growth of almost 5% and Jupiter's growth 12%. So overall, the scooter category has grown, Jupiter has been the prime momentum for as a lead brand taking our total market share to this level. Now it will continue to grow.

Hitesh Goel, Kotak Securities Limited, Research Division - Associate Director & Automobile Analyst [62]

Okay. And sir, my final question is on the significant improvement that you have done on the advertising and marketing cost. As a percent of sales it's coming down because of scaled benefits. What is the kind of growth we should expect in these expenses? We can predict the top-line growth, but ideally would it be in line with inflation, advertising expenses and marketing expenses in terms of actual...

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [63]

I think scaled benefits will definitely -- scaled benefits will definitely, definitely come, that is what we are looking at. And we want to consistently bring down our overall (inaudible) because of scaled benefits, and that will be the key strategy for improving our EBITDA. In addition to of course we will focus on the material cost. Many initiatives we have put in in terms of cost reduction, platform formulization in terms of reducing -- increasing the local content and also the volume benefit. So it's a systematic implementation of many initiatives. And we will also review the material cost. And we have taken Q1 also one price increase, Q2 also we have taken, early part of Q2 there is a small price increase we have taken. So consistently we will focus on getting the volumes benefits on fixed cost reduction overall.

Operator [64]

The next question is from the line of Amyn Pirani from Deutsche Bank.

Amyn Pirani, Deutsche Bank AG, Research Division - Research Analyst [65]

Sir, my first question is, could you quantify the price hike taken in July? And is it across all product categories? Or is it more specific to some categories?

K. Gopala Desikan, TVS Motor Company Limited - CFO [66]

What was it?

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [67]

Price hike.

Amyn Pirani, Deutsche Bank AG, Research Division - Research Analyst [68]

The price hike, if you can quantify like is it like 0.5%, 1% or...

K. Gopala Desikan, TVS Motor Company Limited - CFO [69]

0.3%.

Amyn Pirani, Deutsche Bank AG, Research Division - Research Analyst [70]

Okay. And it's like across all motorcycle, scooter, moped, 3-wheelers?

K. Gopala Desikan, TVS Motor Company Limited - CFO [71]

They are taken across except the commuter motorcycle.

Amyn Pirani, Deutsche Bank AG, Research Division - Research Analyst [72]

Okay. And sir, just going back to the scooter demand, for the industry as a whole it seems that whatever the growth is coming is coming mostly from the 125 cc. And the 110 cc as a segment for the industry is not showing too much growth. So maybe if you can share your thoughts on is it -- is the demand growth only being driven by up-trading in scooters or I mean is the penetration more or less getting saturated in the cities or what is happening there? Because in motorcycles the entry segment is growing because of rural. But in scooters it looks like only the 125 cc is growing.

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [73]

I think 125, see what happens is today the scooter category share it's almost 33%. See, whenever the category share of any segment goes beyond that particular level definitely you can expect some kind of segmentation within that category because we saw most of the commuters looking at scooter. Now there will be one set of people who want to upgrade, that is what is happening in scooter. So 125 cc will be from existing scooter customers who want to definitely upgrade (inaudible). That is one of the reasons why 125 is growing. If you look at overall scooters, it has been growing steadily for the last, if you look at 12 quarters, 13 quarter. And there are 1 or 2 quarters there could be some challenges. But according (inaudible) because it has got its own benefit, is has got the convenience, it has got multiuse. Definitely (inaudible) you will see more and more people looking at the scooters. Yes, rural maybe motorcycle will be there. So according to me scooter growth will come back.

Amyn Pirani, Deutsche Bank AG, Research Division - Research Analyst [74]

Okay, okay, okay. And sir, just lastly on moped. Is the driver for volumes right now for moped mostly coming from rural in your view, or is it -- I mean how is the demand divided? Because it's continues to be relatively steady.

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [75]

Is it more rural? Because moped as a category it is for specific type of customers who are more or less called utility customers, so I would say more rural, so...

Operator [76]

And the next question is from the line of Sonal Gupta from UBS Securities.

Sonal Gupta, UBS Investment Bank, Research Division - Director and Research Analyst [77]

I mean, just continuing with the previous question, could you tell us what will the share of 125 cc scooters for FY '18 and what sort of growth are we seeing in that category?

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [78]

(inaudible) 125 cc scooter, we look at overall scooter category share where we have gained overall market share. Because 125 cc is growing now. There is (inaudible) we have got Ntorq. So overall if you look at it, the overall scooter share is what we should look at in totality. There we have gained the market share.

Sonal Gupta, UBS Investment Bank, Research Division - Director and Research Analyst [79]

Right. And sir, on the -- just on the 125 cc motorcycles, I mean any plans to launch any product in that segment? I mean, because you don't -- and that is a meaningful share of the motorcycle market.

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [80]

I think new products is a constant journey. I think we have to look at (inaudible) opportunity from the market. But I don't want to separately say what cc, what type of product. This is a (inaudible) journey where we will be constantly looking at which areas we are going to improve and (inaudible) products and product plan and market share. So this is a consistent (inaudible) journey.

Sonal Gupta, UBS Investment Bank, Research Division - Director and Research Analyst [81]

Right. And just lastly, could you tell us what was the overall price increase taken in Q1? I mean like as a percentage of sales.

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [82]

Q1 (inaudible) 0.5%.

Operator [83]

The next question is from the line of Basudeb Banerjee from AMBIT Capital.

Basudeb Banerjee, AMBIT Capital Private Limited, Research Division - Research Analyst & VP [84]

(inaudible) as you've said that you have not participated in this price war initiative in the market, but were there any price cuts in select pockets and entry-level bikes in your portfolio in few markets?

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [85]

Well, we have -- like I said, we are looking at growing our brand, okay, across all India. And that is where we are consistently looking at overall growth of a company and that explains that in Q1 we have grown 14%. Overall there is a growth in all segments. Commuter segment alone there is challenge which we will recover with marketing efforts and certain actions what we are planning to take.

Basudeb Banerjee, AMBIT Capital Private Limited, Research Division - Research Analyst & VP [86]

And did you pass on any of those currency benefits in the export market for both in 3-wheelers and motorcycles?

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [87]

No, no, we have not passed it down because we have excellent portfolio and again we are building brands in international markets too. And one other information I wanted to give you is if you look at the total commuter category for TVS Motor is only less than 15%.

Basudeb Banerjee, AMBIT Capital Private Limited, Research Division - Research Analyst & VP [88]

So that's why I just wanted to know that as you rightly stated that commuter category is less than 15% and export 3-wheeler mix, Ntorq mix, Apache mix are all at robust levels. Currency is in favor. So even if we adjust for this INR 90 crore, actually margin comparable to the positive 7.2%, so that is instead of going towards double digit it's only falling below 8% consistently. So how to look at that from a futuristic angle, sir?

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [89]

Futuristic definitely our target is double digit, okay. And we are consistently working on that. Many initiatives we have taken in terms of reducing the material cost. If you look at last quarter and this quarter there is a significant increase in raw material prices plus the customs duty increase. So if you look at it, that itself is more than 1.2%...

Basudeb Banerjee, AMBIT Capital Private Limited, Research Division - Research Analyst & VP [90]

(inaudible) pressure of commodities having peaked out or further room is left?

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [91]

We can't -- we can't say that, we can't say that. We are expecting Q2 (inaudible) increases, so possibly it's true, you will see certain softening.

Basudeb Banerjee, AMBIT Capital Private Limited, Research Division - Research Analyst & VP [92]

And sir, like December, March quarter, you took those increase in dealer margins exercise, so how -- are you seeing any result for that exercise in terms of the distribution enhancement plan which you were saying last phone call that annual dealership outlet growth will be among this (inaudible).

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [93]

Definitely, definitely, because when we look at the overall growth in a market where there are certain challenges, I think all these actions put together will result in growing the market and definitely it will also improve significantly the EBITDA margin.

Basudeb Banerjee, AMBIT Capital Private Limited, Research Division - Research Analyst & VP [94]

Sure, sir. Ad last thing, there has been few media reports that Harley-Davidson is planning to tie up with a domestic partner. So beyond BMW are you open for anything on that line?

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [95]

We have strong relationship and a long-term relationship with BMW.

Basudeb Banerjee, AMBIT Capital Private Limited, Research Division - Research Analyst & VP [96]

No, no, I'm saying Harley is planning to tie up with a existing domestic franchisee, so beyond BMW will you be open for (inaudible).

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [97]

We don't want to comment on any of such (inaudible).

Operator [98]

The next question is from the line of Jinesh Gandhi from Motilal Oswal Financial Service.

Jinesh K. Gandhi, Motilal Oswal Securities Limited, Research Division - SVP of Equity Research [99]

My question pertains to new product launches. Sometimes last year Mr. Srinivasan had talked about launch of electric scooter and hybrid scooter by beginning of July '18. Can you throw some light on by when we expect to launch that on our strategic and electric 2-wheelers?

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [100]

We have invested in electric and hybrid technology. I think lot of proving work is happening. Very close to the launch we will definitely announce our plan of action.

Jinesh K. Gandhi, Motilal Oswal Securities Limited, Research Division - SVP of Equity Research [101]

Okay. And secondly with respect to the tax rate for the quarter was (inaudible) on the higher side, how should we look at for the full year? Would it be close to this quarter rate of about 31% or expected to be lower?

K. Gopala Desikan, TVS Motor Company Limited - CFO [102]

No, it is likely to be at this level because last year had the related incentives and benefits -- tax benefits (inaudible) as well as we had this R&D expenditures (inaudible) 200% was not -- was there. Now this has been reduced, therefore the effective tax rates haven't gone up and this is likely to be at the same level.

Jinesh K. Gandhi, Motilal Oswal Securities Limited, Research Division - SVP of Equity Research [103]

Okay. And for this year CapEx is expected to be at same, INR 700 crores?

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [104]

Yes, it will be around that because there is a lot of work going on [VSA] so plus all the products put together this will be the kind of investment.

Jinesh K. Gandhi, Motilal Oswal Securities Limited, Research Division - SVP of Equity Research [105]

Okay. And what would be our investment plan in our subsidiaries?

K. Gopala Desikan, TVS Motor Company Limited - CFO [106]

Investment plan in subsidiaries, the first quarter we had invested around INR 52 crores. TVS Credit Services INR 25 crores and PT TVS around INR 27 crores. (inaudible) maybe investing another INR 75 crores to INR 100 crores in TVS Credit Services.

Operator [107]

The next question is from the line of Nitesh Jain from Aditya Birla Mutual Fund.

Nitesh Jain, [108]

Basically sir, my question is on the Ntorq and Jupiter scooters, so you mentioned that the initial excitement might lead to some lower sales for the Jupiter. But for a longer term, if you look at will the company be able to sell both Ntorq as well as Jupiter simultaneously or do you think that on a longer-term basis Jupiter sales can come under pressure because of the Ntorq being very, very exciting for the young generation?

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [109]

As I said, because of Ntorq Jupiter's sales has come down. I said whenever you come with a new model, whenever you look at new technology and connected scooter kind of a thing and it is there in a showroom, some of the customers are really wanting change and they will look at it and the moment they see it in the showroom they will say that, okay, let me try this. Okay. It's no way going to affect the Jupiter because Jupiter and the Ntorq if you look at it, both models are very uniquely positioned. Jupiter is commuter scooter. And if you look at Ntorq it is purely positioned for young people, okay, young people who want certain styles, certain features, certain speed, certain power, pick up. So it is completely, completely differentiated. So both of this is going to help us to further grow our overall market share of scooter. It will never -- will have any kind of cannibalization.

Nitesh Jain, [110]

Got it. And a similar question on the same matter, you mentioned that the Ntorq has been accepted in the market very well and there is -- a good amount of demand is there. So can we assume that the ad spend on the Ntorq model per se would be lower than the, say, Jupiter and therefore on an blended basis approximately the Ntorq EBITDA margin will be much higher than Jupiter?

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [111]

We don't give guidance on individual brand wise, but I can promise you one thing, Ntorq we are now doing about 20,000 and we want to consistently build it as another lead brand because India more young people are buying. If you look at in the motorcycle category, today premium bikes, sports bikes, the numbers are going up, so same way there are many people who wants to look at 125 cc kind of Ntorq kind of scooter, so we will -- and the investment behind brand is really, really taking the company to much higher level.

Nitesh Jain, [112]

Okay. Sure. And so lastly on the same thing. Does the company has any sort of capacity constraint to produce 20,000 Ntorq per month or you think you would be able to meet the demand?

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [113]

We are already producing 20,000, and today the -- any capacity it takes about 3 months, that's all because supply chain is ready, everything is ready, so we always proactively take a lot of steps in enhancing the capacity. It's absolutely not a constraint at all.

Operator [114]

The next question is from the line of Chirag Shah from Edelweiss.

Chirag Shah, Edelweiss Securities Ltd., Research Division - Research Analyst [115]

Sir, I have a question on investment in the brand, when do you decide that the brand doesn't need that kind of support? Is it a particular volume number or a market share that gives you confidence that if I was spending X amount on a particular brand this is the time that we need to lower it, so how do you assess that opportunity? And have you tried and tested that in certain markets?

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [116]

I think it's too early for us because we are now growing and building big brands. Okay, Apache has been a good growth story. It is getting built. Maybe we are now more looking at digital in a product like Apache, so the type of investments may change depending upon the type of the customer. And if you look at Jupiter, it's a brand where you have to consistently invest to take it to the next level of that. And Ntorq is a very, very new product, it is just 3 months old. So the feedback from the market whatever we are getting is it can be taken as another lead brand. So we need to build both of these brands, and if I look at international market it is excellent, it is extremely well, that brand. So each one need to be assessed, and it's a judgment. How much more potential is there in a brand and how much we can grow, it's a judgment. So there is no, it's a alchemy where we have to look at and find out and say, okay, this is the kind of investment you have to make so that the return on investment is very good and it can growth much faster into the market.

Chirag Shah, Edelweiss Securities Ltd., Research Division - Research Analyst [117]

Fair point. But there is -- so at least in the foreseeable future (inaudible) next 2 to 3 years, the kind of support that you have been providing to brands, the established brands like (inaudible) Apache and Jupiter will continue?

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [118]

Will continue and the overall volume will grow and there will be scale benefits. Hence the percentage will keep coming down.

Chirag Shah, Edelweiss Securities Ltd., Research Division - Research Analyst [119]

Okay, sir, this was helpful. Sir, second question was on the raw material front. Can we make an assumption that after Q2 the pricing, the cost pressure on the raw material are largely behind for TVS?

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [120]

As of now that is the feeling we are getting because it has already reached very high levels and Q2 there is likely to be some more (inaudible). For H2 we should see some kind of release on material cost increases.

Chirag Shah, Edelweiss Securities Ltd., Research Division - Research Analyst [121]

And the price hikes that you have taken would at least cover the cost part, may not provide you the market but the costs are fully then covered with the price hike that you have done?

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [122]

Yes, see, we have increased the prices, 0.5% in Q1 and 0.3% in Q2, so put together 0.8%. And many initiatives we have taken to reduce the cost internally. But this is a journey we have to constantly review and look at, and opportunity comes we will definitely look at one more price increase. So it's a regular journey.

Operator [123]

The next question is from the line of Prateek Poddar from ICICI Prudential Asset Management.

Prateek Poddar, ICICI Prudential Asset Management Company Limited - Investment Analyst [124]

Just one question, in your opening remarks you talked about increase in the RM cost because of high import content, so when do you plan to localize this?

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [125]

Localization is happening because there are suppliers with whom we are working here, and it's a journey by itself because the volume and the ability to ramp up because every month we have to also deliver the numbers. So this has to be done very, very carefully. So the work is going on.

Prateek Poddar, ICICI Prudential Asset Management Company Limited - Investment Analyst [126]

But the increase in RM cost is predominantly led by input cost inflation, that is a fair point, rather than this component cost increase, is that a fair point to take?

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [127]

(inaudible) actually the raw material cost increase is the predominant factor.

Operator [128]

The next question is from the line of Bharat Gianani from Sharekhan.

Bharat Gianani, [129]

Given that whatever hopes you have highlighted for improving the margins, like increasing the localization and getting the scale benefits and obviously the export share also going up. So would you like to put any timeline for the double-digit margin that especially this after the light of -- in the light of rising RMC scenario, and also the rising competitive intensity in the 2-wheeler space. So would you like to put a timeline by which you would be able to achieve the double-digit EBITDA margin?

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [130]

We are very serious about this double-digit margin and we are working on that. I may not be able to give you a guidance on by which quarter we would achieve it but we are very, very serious on the double-digit margin.

Operator [131]

The next question is from the line of [Vaikam Kumar] from [GM Financial].

Unidentified Analyst, [132]

Sir, you had mentioned that the CapEx plan for FY '19 would be INR 700 crore. What would the number be for FY '20?

K. Gopala Desikan, TVS Motor Company Limited - CFO [133]

Too early, too early. I think the full focus is on (inaudible) transformation journey. And new products of course we need to invest behind the technologies related to electric hybrid, all those are happening, too early at this point of time.

Unidentified Analyst, [134]

And how do you intend to finance this INR 700 crores, will it be internal approval or?

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [135]

That's internal approval.

Unidentified Analyst, [136]

Completely, is it?

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [137]

Yes.

Unidentified Analyst, [138]

Okay, okay. And sir, a question on the strategic side. What are some of the metrics that we track before making any strategic decision, is it the margin, the return ratios or the cash flows?

K. Gopala Desikan, TVS Motor Company Limited - CFO [139]

Repeat, repeat your question.

Unidentified Analyst, [140]

No, sir, what are the key metrics that we track before making any strategic decisions, will it be the margins, will it be the return ratios or the cash flows?

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [141]

Most importantly customer satisfaction. First you have to make sure that the customers are there and the customer satisfaction is (inaudible) so that you can build the business long term.

K. Gopala Desikan, TVS Motor Company Limited - CFO [142]

And it's a combination of all.

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [143]

And all these parameters roughly taken. End of the day we are growing the business to make money. So we will look at in totality all the aspects. You can't look at only one parameter and take a decision.

Unidentified Analyst, [144]

So you don't have any priority?

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [145]

Priority always we are looking growth, volume quality, volume growth, market share growth, and then looking at how to increase the EBITDA margin systematically.

Operator [146]

The next question is from the line of Achala Kanitkar from Birla Sunlife Mutual Fund.

Achala Kanitkar, [147]

So I just wanted to know what would be our current import content maybe among the raw material as a percentage of raw materials.

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [148]

I'm not clear about the question.

Achala Kanitkar, [149]

The import content as you had mentioned, the reason are raw material cost has gone up is also on account of the custom duties which has gone up in the last quarter as well. So just wanted to know what would be the import content for us?

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [150]

About 12%.

Achala Kanitkar, [151]

Okay. And this would be primarily in the new models that has come out, because they have more electronic content?

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [152]

It has been -- it has been there. It has been there for a long time, okay, the items like alloy wheel. There are many items we are depending upon import, but this is what we are now trying to localize.

Operator [153]

The next question is from the line of Mahesh Bendre from KARVY Institutional Equity.

Mahesh Bendre, KARVY Stock Broking Limited, Research Division - Research Analyst [154]

Sir, previous Apache -- I mean, the Apache brand is doing really well in domestic market. It has grown 30% in the quarter, current quarter. But on export side, it's remained flat more or less, it's not growing. So is there any reason for this?

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [155]

No export -- export also it is growing. It just varies from market-to-market and we are -- we have the full product range. As a overall brand you will see Apache growing in every market.

Mahesh Bendre, KARVY Stock Broking Limited, Research Division - Research Analyst [156]

Yes, but on the export side it's not -- I mean almost flat, I'm just wondering.

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [157]

I think we have to look at in terms of the market share growth, even in export we have gained.

Mahesh Bendre, KARVY Stock Broking Limited, Research Division - Research Analyst [158]

Sure, sure, sure. And sir, any -- I mean, over the next 18 months any plan of launching new models or refreshers of existing products? Any color there?

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [159]

That has to be there. For example, for the season itself you will see many excitement coming from TVS. So in this business we have to have new products, new technologies, new features, upgrades, limited edition, this is part and parcel of the journey because we have to give that freshness to the customer and we believe in that. (inaudible) excitement to the customer, aspirational products, and best-in-class quality.

Mahesh Bendre, KARVY Stock Broking Limited, Research Division - Research Analyst [160]

Sure, and sir on margin front, last year your EBITDA margins were 7.5%. I'm just wondering for this year is it fair to assume we will have better margin than what we have reported or any view on this?

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [161]

Definitely, yes. I don't want to give any guidance but we are working towards that.

And we take the last question, please.

Operator [162]

The next question is from the line of Kumar Rakesh from BNP Paribas.

Kumar Rakesh, BNP Paribas, Research Division - Analyst [163]

Even adjusting for the freight charges, because of accounting changes, your gross profit margin is now close to the lowest you have reported. And also add to that, the first quarter end I'm looking at 100 and 110 cc segment in which Bajaj is getting aggressive. You have lost significant market share. One of the major chunk Bajaj got market share in that segment is because of TVS losing that. And your commodity cost has also gone up, which you also highlighted that Q2 it will continue to go up and then possibly stabilize around that. In light of all -- and moped is fair to assume would not grow ahead of the industry, overall industry. So in light of all this, how do you see your target or outlook of market share gain and margin expansion at the same time?

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [164]

First of all, overall if you look at even for Q1, we have grown 14%. We have grown in motorcycle. The premium motorcycle is 21%, scooter is 12% better than the industry. IB we have grown 2-wheelers 44%, 3-wheelers 112%. Moped we have grown 10%, okay, very close to the industry growth in moped. And in commuter segment we (inaudible) did not want to take any part which is about 15% of our business. And if you look at our July numbers 2018, domestic 2-wheelers we have grown 13% and the industry grew by 8%. So we will definitely grow overall ahead of the industry, that's number one. Number two, if we you look at overall, last year's Q1 to this year's Q1, we have grown 33% in terms of PBT, okay? And EBITDA for this quarter is 7.4%. If you look at the same last quarter -- last quarter -- last year same quarter it was 6.7%. So from 6.7% we have come to 7.4%. In a market where there is high discounting.

Kumar Rakesh, BNP Paribas, Research Division - Analyst [165]

Great. Okay, so that's very helpful. Do you have any comments on BS VI, how the preparations are and how the cost is.

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [166]

I think every -- I think all of us are working on proving the technology (inaudible) at this point of time, but we will definitely comply with BS VI much ahead of the markets.

Operator [167]

Thank you. Ladies and gentlemen, due to time constraints, this was the last question. I now hand the conference over to Mr. Annamalai Jayaraj for closing comments. Over to you, sir.

Annamalai Jayaraj, Batlivala & Karani Securities India Pvt. Ltd., Research Division - Director & Deputy Head of Research [168]

Yes, thank you, everyone. On behalf of B&K Securities, we thank TVS Motor Company Limited for providing us the opportunity to host the call. I would also like to thank Mr. Radhakrishnan and Mr. Gopala Desikan for taking time out for the results call.

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [169]

Only the last point which I wanted to highlight to everyone is if you look at last 4 years our overall profits have grown from INR 456 crores to INR 879 crores. During this period EPS has doubled from INR 7 to INR 14. And we are very confident in the better mix, various material cost reduction initiatives, sales benefits, systemic internal efficiency programs. Our EBITDA will continue to grow. And TVSCS is a very good company which is supporting us in terms of overall growth in terms of the 2-wheeler domestic. And 3-wheeler international and 2-wheeler business in international will grow ahead of the industry. Thank you.

Operator [170]

Thank you, ladies and gentlemen.

K. Gopala Desikan, TVS Motor Company Limited - CFO [171]

Thanks.

Operator [172]

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