

Full Year 2018 TVS Motor Company Ltd Earnings Call

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Corporate Participants

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* K. N. Radhakrishnan

TVS Motor Company Limited - President & CEO

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Conference Call Participants

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* Arya Sen

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* Ashish Nigam

Axis Capital Limited, Research Division - SVP of Automobiles

* Binay Singh

Morgan Stanley, Research Division - Executive Director

* Chirag Shah

Edelweiss Securities Ltd., Research Division - Research Analyst

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* Kapil R. Singh

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* Pramod Pandey

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* Vasudev Banerjee

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Presentation

Operator [1]

Good day, ladies and gentlemen, and a very warm welcome to TVS Motor Company Limited Q4 FY '18 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 B&K 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, Ali. Good afternoon, everyone. On behalf of B&K Securities, I welcome you all to 4Q FY '18 Post Results Conference Call of TVS Motor Company Limited. We're delighted

to have with us today Mr. K. N. Radhakrishnan, Chief Executive Officer; and Mr. K. Gopala Desikan, Group CFO. I'd now transfer the call to Mr. K. N. Radhakrishnan for the opening remarks to be followed by Q&A. Over to you, sir.

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

Good afternoon, everyone, for joining this call. Q4, our results, the 2-wheeler sales during this quarter grew by 30.4%. Scooters grew by 25.5%. Motorcycles grew by 61.1%. Mopeds grew by 5.4%. Overall, domestic 2-wheelers during this quarter grew by 28.6% over last year, exports grew by 40.4%. 3-wheeler sales during the quarter grew by 90.7%. Revenue excluding the excise duty grew by 40.4%, INR 2,844 crores to INR 3,993 crores. We had cost increases in Q4, substantial increase in the raw material cost and the import duty of components put together almost 1.2%. And also both Tamil Nadu and Karnataka government increased the minimum wage by almost 30%. [The reverse] impact of almost 0.3%.

Our product launches came in Q4, there was an additional -- this is Apache 310 RR, Apache 160 4-valve and NTORQ 125. There was an additional expenditure in the marketing including Auto Expo for 0.5%. We took a price increase in the month of January about 0.4%. However, this was passed on to support the dealer margin improvement of almost 0.4%. Overall, despite all this cost increases, the Q4 PBT increased from INR 134 crores to INR 192 crores, 43.3% increase. Profit after tax for the quarter was at INR 165.6 crores compared to INR 126.8 crores last year, growth of almost 30.6%. Year as a whole, as this quarter, the EBITDA for this quarter is at 7%. Year as a whole, 2-wheeler sales grew by 17.8%, scooter grew by 30.4%, motorcycles grew by 25.8%, mopeds declined by 3.7%. Domestic 2-wheeler sales during the year grew by 15.5%, exports grew by 33.7%, 3-wheeler grew by 42.5%. Revenue excluding excise duty grew by 24.7% from INR 12,135 crores to INR 15,130 crores.

PBT for the year was at INR 878.6 crores compared to INR 698.7 cores last year, growth of 25.8%. PAT for the year is INR 662.6 crores compared to INR 558.1 crores last year, growth of 18.7%. The tax rate for the year is 24.6% compared to last year 20.1%, primarily due to the reduction of weighted deduction for R&D expenditure 200% to 150%. And completion of the tax incentive in HP. Operating EBITDA for the year is 7.5% compared to 7% of last year. Dividend, initial November '17, first interim dividend of INR 2 per share. Then in February 2018, second interim dividend of INR 1.3 per share put together [INR 3.3]

Products launched, the 125cc TVS NTORQ, Apache portfolio was strengthened with 160 4-valve and also the current Apache RTR 200 4-valve with the anti-reverse torque slipper clutch, both are accepted very well in the market. TVS Motor Company was ranked #1 in JD Power 2018 in both IQS and APEAL score for the fourth time in succession. We were also ranked #1 in the JD Power 2018 customer service in the 3rd year in succession. RR 310, Apache won 2 prestigious award this year, Autocar Awards 2018, Bike of the Year and Readers Choice bike. Company also won the Bike Manufacturer of the Year award at Times Auto Award 2018.

2018, '19 monsoon is expected to be normal. Industry is likely to grow with the strong portfolio and expected launch of new products in the next -- this year, we will continue to grow ahead of the industry. There will be upward bias in the material cost in the first half of this year. We are constantly reviewing this position, already we have taken up prices and 0.5% will mitigate that of the cost increases. Further, we are focused on reducing the impact of cost increases through various cost reduction initiative such as VAV, platform [commonization], localization. We will be having improved product mix and that will also help us. The strong portfolio, we, the company expects to substantially mitigate the cost increases and with successful completion of various cost reduction projects. We will report improved EBITDA performance in 2017 -- '18, '19. Export continue to do well and we will continue to grow ahead of the industry. Thank you.

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Questions and Answers

Operator [1]

Sir, may we start taking questions, now.

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [2]

Yes.

Operator [3]

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

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

Regarding the margins, 1 thing I wanted to check, in terms of when we had last -- had the call, you were talking about achieving double-digit margins by Q4. So where is the [GAAP] compared to your expectations which has resulted in the miss, this quarter?

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

The headwinds related to the raw material and the import duty increase and also the minimum wages increase with respect to both Karnataka and Tamil Nadu, this were not expected this kind of increase. Of course, 3 launches came together along with Auto Expo in the last quarter. And because of the GST changeover, we have to support our dealers. That's why even though we increased margin, we have to pass it on to dealers to support them. And this was the quarter we have also seen lot of practical and incentive competition by reducing prices from competition. So put together, we saw a challenge in terms of the headwinds in terms of cost. However, we are confident that we will be able to -- we've already taken up prices this year and the product mix is better. And lot of cost reduction initiatives including VAV and localization is going on this year. So that will definitely help us to mitigate some of this headwind.

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

Okay. So going ahead, are we expecting any guidance you have on margins, should we expect them to go up significantly from here or you would look to maintain them around these levels, given the cost challenges you talked about?

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [7]

We will definitely improve our EBITDA. I think, our continued focus will be on growing faster and also to gain momentum in EBITDA, that focus will definitely continue.

Kapil R. Singh, Nomura Securities Co. Ltd., Research Division - Auto Analyst [8]

Okay. And the second question I had on the volumes. If you could share your outlook for the various segments, particularly scooters, we have seen some level of slowdown, for example, if I see the April volumes, the traditional portfolio excluding the new launch hasn't really seen any growth. So any thoughts you would like to share? Is the scooter portfolio in particular slowing down for the industry as a whole or yourself?

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [9]

For us, I think, we had a reduced dispatch of about 10,000 numbers in April, because of the transition impact of the e-way bill implementation, but that will definitely get compensated in May. And with respect to the overall growth, the momentum will be faster for us. Industry will grow in this quarter, that is our estimate.

Kapil R. Singh, Nomura Securities Co. Ltd., Research Division - Auto Analyst [10]

For the year as a whole like what are you -- what kind of growth are you looking at for various segments, if you could share that?

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [11]

Which segment?

Kapil R. Singh, Nomura Securities Co. Ltd., Research Division - Auto Analyst [12]

For all the segments which we are (inaudible) .

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

Industry 8% to 10% is what we are forecasting.

Operator [14]

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

Binay Singh, Morgan Stanley, Research Division - Executive Director [15]

So just to be clear, are we giving any timeline now for a double-digit margin? Because earlier there was a sort of a timeline shared for that by when do you target to achieve that now?

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [16]

I think, the direction is more important. We will continue to focus on that.

Binay Singh, Morgan Stanley, Research Division - Executive Director [17]

Right. So no fixed timeline now, right? So that's a departure from past where you were...

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [18]

I think, the more focus is definitely on improving the EBITDA performance, in addition to growing faster than the industry.

Binay Singh, Morgan Stanley, Research Division - Executive Director [19]

Okay. So, sir, second question is that in the comments you mentioned 2, 3 things if you could elaborate on. You said that incrementally also you are seeing some cost pressures which will come through in the coming quarters. So could you share as to how much of raw material headwind is behind us. What sort of eye sights you've taken, so in a way, like directionally from here on, something on that. And secondly, you talked about dealer margin increasing. So was that in line with everybody else in the industry because TVS is seeing such a strong sales momentum, so one would imagine that the dealer's profitability should be much stronger to an extent, dealers should be able to absorb a lot of cost. So any comments on that?

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [20]

We review only from the -- on the cost side, definitely we have seen a substantial increase of the raw material in Q4. I don't want to comment about our competitor, but for us based on the agreement what we have with our suppliers. One significant increase has happened in Q4, also some import duty increase whatever we have seen. Put together there was an impact of almost 1.2%. And with respect to dealer margin increase, this was our initiative to support because post GST there have been some challenges. So whatever price increase we did it in January, we help the dealers to improve their profitability, that is the 0.4%. And this quarter, we have already taken another price increase which amount to almost 0.5%.

Binay Singh, Morgan Stanley, Research Division - Executive Director [21]

To an extent have you sort of offsetted all the commodity headwinds that you're incrementally seeing or do you think that they will further hit you?

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [22]

This quarter also we are seeing some more increase in the raw material cost. Our estimate is up to H1.

Unidentified Company Representative, [23]

Expected to be like this till H1.

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [24]

Yes.

Operator [25]

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

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

Sir, you have very clearly laid out all of the headwinds what you have faced in 4Q and what you see in 1H, but at the same time, you are talking optimistically about the margin expansion because the industry per se is not looking at a margin expansion, most of your competitors. So wanted to understand what are the positive tailwinds or [positive] catalysts what you are looking for the whole of FY '18, '19? If you can just help us understand, that will be great. That will be my first question.

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

I think our -- most importantly, this customer satisfaction and the delight post year in succession #1 in IQS and APEAL score, and #1 in terms of service definitely. And also all our brands, whether it is Apache, whether it is Jupiter, the recently launched NTORQ and commuter motorcycle. I think, there is a lot of positive momentum. We are not participating in tactical promotions of our brand. We are also investing behind the right technologies. Our exports is continuing to grow. In many markets we have done extremely well. And 3-wheelers continue to grow. So overall, in terms of focusing on the product mix is one strong brand and quality growth. And the second is related to cost.

Unidentified Company Representative, [28]

Monsoon is expected to be normal in '18, '19, and this upward bias what we had indicated is likely to remain like this for the first half, but the measures what the company has taken is one, we're constantly reviewing the position and already taken a price increase to neutralize to the extent the 0.5%. And we are also focusing on the cost reduction projects like VAV, platform formalization and localization. And with the strong brand and the improved product mix will help us to neutralize, mitigate this cost increase.

Pramod Kumar, Goldman Sachs Group Inc., Research Division - Executive Director [29]

Okay. And can one expect reasonably a good pullback in the percentage of marketing spend for the company given that, don't see much of ad spend for Apache. I'm told, it's sold out for the next 3, 4 months, you haven't even ramped-up the Apache 300 availability beyond the first 50 dealers. NATORQ is again kind of sold out in most of the market. So is this is going to be the year where we see some reasonably good pullback in the marketing percentage spend?

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [30]

Marketing percentage will definitely come down primarily because the revenues are growing, the overall volumes are growing. So a proportion of the overall marketing spends will come down.

Pramod Kumar, Goldman Sachs Group Inc., Research Division - Executive Director [31]

And KNR, my second question is for the marketing expenditure -- sorry on the export side. There for the last 3 consecutive months you're seeing a dramatic improvement in volume especially in 3-wheelers and also your Apache dispatches have stepped up dramatically from March. So and April also looks like based on the [SCIAM] numbers is a meaningful improvement. So is it something which is sustainable? Because I understand both these product categories will be higher margin and given where the currency is. So is this something which is a more of a one-off which you've seen only for the last 2, 3 months? Or you think this momentum can be maintained going into FY '19, the whole of FY '19?

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [32]

Export is a good story, Pramod. And I think, we have very good order inflow. I think in all the markets wherever we are selling our brands, the pull is extremely good. So this momentum will continue. And overall, India also we will do, we will continue to grow ahead of the industry, that confidence is there. And these brands are doing well.

Pramod Kumar, Goldman Sachs Group Inc., Research Division - Executive Director [33]

So you expect the momentum to continue in FY '19, on -- both on Apache and the export count especially?

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [34]

Yes.

Pramod Kumar, Goldman Sachs Group Inc., Research Division - Executive Director [35]

And final question on the TVS credit side. I do understand, you consolidated the result for the first time which has meaningfully reduced the gap between consolidated financials and the standalone financials. If you can talk a bit more about that as to how that business is doing because this is the first year where we are getting the consolidated or the performance of the TVS credit. So if you can just take some time and explain that business and your thoughts on the growth there, and how much value add can it do for the TVS standalone entity? And also quick comments on the TVS Indonesia operations, as to how is the loss trajectory there?

Unidentified Company Representative, [36]

Just to give a background on TVS Credit Services became a subsidiary on 7th September, 2017. And what is included in this consolidated statement is profit relatable to that period, from 7th September to 31st March, 2018. On a full year basis, their PBT for this year is INR 170 crores, and the PAT is INR 114 crores as against last year's PBT at INR 79 crores and PAT of INR 51 crores. Then the, I'm sorry, I stand corrected. Last year ['16,] '17, PBT was INR 135 crores and it has gone up to INR 170 crores. And last year PAT was INR 87 crores, has gone up to INR 114 crores. And the net worth is INR 892 crores and their book size is INR 6,100 crores as against last year's INR 5,000 crores. This is about on TVS Credit Service, the full year impact of this and the consolidated amounts can be seen in the next financial year.

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [37]

With respect to PT. TVS, I think our exports numbers, the overall volumes are going up. There also we had some headwind with respect to the material cost increases, but this year, we are very confident that we will break even and we will make a small profit in PT. TVS.

Pramod Kumar, Goldman Sachs Group Inc., Research Division - Executive Director [38]

What was the PBT loss number or the EBITDA loss number, if you can share? PBT would be pretty helpful.

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [39]

Of which one you're asking?

Pramod Kumar, Goldman Sachs Group Inc., Research Division - Executive Director [40]

Indonesia, sir.

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [41]

On PT. TVS? Okay.

Unidentified Company Representative, [42]

Yes, it's [3.7 million].

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

And last year, sir?

Unidentified Company Representative, [44]

The same level.

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [45]

Same level, similar level.

Operator [46]

(Operator Instructions) The next question is from the line of Ashish Nigam from Axis Capital.

Ashish Nigam, Axis Capital Limited, Research Division - SVP of Automobiles [47]

Yes, I wanted your thoughts on mopeds. So going ahead, there is a requirement of CBS, then fuel injection also the instrument cluster has to change to incorporate OBD. So firstly, are these technical challenges for a moped?

Unidentified Company Representative, [48]

I think, BS-VI is a challenge for all products. But what is good about moped is, we had 2-stroke, we completely converted into 4-stroke. And moped is doing well, that's a healthy sales of moped. And there is a category which is completely focused on the entry-level customer, look -- utility set of customers. So we are also working on all these new technologies required for BS-VI. And we will comply with BS-VI. Definitely, we will comply with [BS-VI].

There will be challenges. Like all the other models, there will be challenges in terms of the cost, but BS-VI happened the relative cost of every model, whether it is moped, whether it is motorcycle, scooter, everything will increase. So we have to look at only the relative pricing and the relative positioning in the market. But as a category, customers know it. Especially those people who carry load in the utility space at the entry level.

Ashish Nigam, Axis Capital Limited, Research Division - SVP of Automobiles [49]

No sir, because there is a view that these -- the moped is anyways technologically a little lower than let's say a motorcycle, is to begin with. So in percentage terms and maybe in absolute terms, the jump is quite high going into the safety and the emission norms. Is that something you all are seeing?

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [50]

No, technologically, I don't know how it is inferior, I don't understand, because you drive a moped, you look at the current 4-stroke, you look at the engine, that is similar to a motorcycle. There is absolutely nothing inferior about the technology.

Ashish Nigam, Axis Capital Limited, Research Division - SVP of Automobiles [51]

Okay, so the outlook on moped is that -- see that's a segment we find it tough to really understand the psyche of that buyer because there is always a view that this moped buyer is about to upgrade to an entry level motorcycle and there is many entry-level motorcycles who are actually vying for that market.

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

There are today motorcycles available very close to moped price or lesser than moped price. But still we're selling moped.

Ashish Nigam, Axis Capital Limited, Research Division - SVP of Automobiles [53]

Yes. How are you all thinking about that segment, is that -- going ahead in the next 5 years or so is it something that will underperform the rest of 2-wheeler pack?

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [54]

I don't want to say that. We are focusing on the customer, we are focusing on the customer and we are very proud that we have a range which satisfies starting from the entry level customer up to a premium level customer, [not only] super premium model customer. So we will continue to invest and support those set of customers and I don't think, which is going to decline.

Ashish Nigam, Axis Capital Limited, Research Division - SVP of Automobiles [55]

Okay, see the reason I'm asking is because obviously coming to your margin, there are many conspiracy theories of which segment is more profitable for you. There is a view that mopeds is relatively more profitable for you because it's a monopoly, there is low advertisement cost. Something you can talk about the margin between different segments. From a mix point of view what's taking you from [7 to 10]?

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [56]

We don't generally give guidance on margins segment wise, but overall, we are present in all segments and we will continue to invest behind the product, development, technology, brand, and overall the sales revenue will grow.

Ashish Nigam, Axis Capital Limited, Research Division - SVP of Automobiles [57]

So even in 3-wheeler space, some peers of yours were talking about very strong volumes in India because of new permits in some states and scrapping of permits in Maharashtra. What traction are you seeing there and what's the outlook for FY '19, volume outlook?

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [58]

I think it will -- the industry will grow. We are expecting the industry to -- will grow overall both in export as well as domestic. Of course, within domestic market it is like you said it is permit-driven. So but in international, definitely people love the role played by 3-wheelers, so we are confident that this year also there will be growth. And we will continue to grow ahead of the industry in 3-wheelers in international as well.

Ashish Nigam, Axis Capital Limited, Research Division - SVP of Automobiles [59]

The last question if I can. Just if you can share the BMW JV, the volumes?

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [60]

Last year, we did about -- financial year [26,471] last year we did.

Ashish Nigam, Axis Capital Limited, Research Division - SVP of Automobiles [61]

Okay. And any financial numbers you can share?

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [62]

Yes. [26], the overall sales number is, this is the number what we share.

Operator [63]

(Operator Instructions) The next question is from Amyn Pirani from Deutsche Bank.

Amyn Pirani, Deutsche Bank AG, Research Division - Research Analyst [64]

I just wanted a clarification in case I had missed this. So you mentioned that the price hikes taken in January were actually help to -- to help the dealer buffetability. So basically is the understanding correct that the price hike to the customer did not flow in in terms of high realization for you, but was retained by the dealer. Is that a correct understanding?

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [65]

Yes, yes, correct, you're correct. Correct, you are right, absolutely right.

Amyn Pirani, Deutsche Bank AG, Research Division - Research Analyst [66]

Okay. And then just 1 more question, you mentioned that margin pressures on account of raw material and other factors. Just for this quarter, the increase in other expenses on a Y-o-Y basis is very high. So is it entirely attributable to the Auto Expo and launch expenses or is there something else that is also there?

Unidentified Company Representative, [67]

No, we indicated the minimum wages impact is also included there, other expense.

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [68]

You are asking marketing.

Amyn Pirani, Deutsche Bank AG, Research Division - Research Analyst [69]

I'm asking the other expenses, yes, other expenses.

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [70]

Marketing, yes, your understanding is right. I think there were 3 product launches because of Apache 310 RR came in the last week of December, then Apache 160 4-valve, NTORQ 125, all this happened in between January, February, March, and February, we had the Auto Expo. So all put together, there was almost 0.5% increase in the marketing expense.

Amyn Pirani, Deutsche Bank AG, Research Division - Research Analyst [71]

So this is like a one-off which would not like come back again in the next quarters, right. Is that the correct understanding?

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [72]

Yes, normally all one-step are unlikely.

Operator [73]

The next question is from the line of Vasudev Banerjee from Ambit Capital.

Vasudev Banerjee, [74]

Couple of questions. Just continuing with the previous question, as you rightly highlighted new launches in Auto Expos because of that 50 basis points enhancement. So should we look it from a percentage perspective or from an absolute number perspective, that is down the line with volume growth being much superior, a few of those other expense line items not moving in sync with the volume and that's how the margin benefit should trickle down. But if we continue to see it from a percentage of revenue basis, then despite your volume moving up at such a good pace, we will only continue to see from a 50 bps increase here

and there basis and that won't be anything positive from a EBITDA margin perspective. So if you can highlight on that angle, sir.

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

I think, there are 2 important points. First we have to look at the industry, industry that has been huge, what you call tactical action in terms of last quarter if you look at it, especially in the entry-level segment. Okay, there were price reductions, there were offers. As against that, we have not participated in a significant way, but that has also resulted in not increasing the prices in a significant way. Okay, this is one. So we have to look at, one, we have to grow our revenue because that is what is most critical for the business. #2, we have to invest behind the right brand, so when we come up with 3 launches together in a quarter which we also wanted to space it out, we have to invest behind those brands. This is very, very important.

And in any such cost there is something which is fixed, another one is variable. And the fixed cost percentage will definitely come down, what we said is absolutely right when the volume goes up. And that is exactly our focus, the product mix being better, the volume growing up, the fixed cost will definitely come down. On top of it, there will be -- we'll be very closely watching opportunities for increasing the prices in the market. And already, we have done almost 0.5% in between April and May this year, so we will be reviewing very closely actions related to that. And the other variable cost includes the price increase, factory conversion cost, et cetera, et cetera, where there are many initiatives to control that.

Vasudev Banerjee, [76]

Okay, some couple of more questions. One, so like the January price increase which eventually got passed on to for dealer margin and not benefiting you amid a cost inflationary scenario. Is that a perennial thing or it can get reversed down the line because those incentives are typically temporary in nature?

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [77]

No, this margin increase is part of the support required to do many -- that because dealers are also having challenges with respect to cost also working capital. So this is an initiative whatever we have taken, but definitely this will also help us to improve our retail going forward.

Vasudev Banerjee, [78]

So basically another person also had the same concern because your volume growth is one of the best in the industry compared to the leaders. So if your dealers get concerned about growth and cost inflation, then what should be the scenario for the leaders?

Unidentified Company Representative, [79]

No. It's not a concern for which this money was given because of GST and other introductions happened, the working capital related challenges were faced by them. So to ease that and to normalize the situation this was given. It's not that a concern for which this was given or only to improve the sales, that's not the reason for giving this increase.

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

And also this dealer margin review takes place once in 3 years, once in 4 years like that we review. So this is also part of the process of the company.

Vasudev Banerjee, [81]

And sir, it had impact on margin by 40 basis points, am I right?

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

Yes.

Vasudev Banerjee, [83]

Okay, sir. And last question is, if I see your brand wise volume, largely Jupiter volume was 63,000 in July last year and it is still 65,000. So a matter of couple of months more when base effect will catch up and if I see since November, your volume has gone nowhere. So even to expect a industry level growth, your volume -- absolute volume of Jupiter should be 75,000 sooner the later, so any view on that?

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [84]

Jupiter is a good brand and it will continue to grow, definitely it will continue to grow. Our focus is with Jupiter, Scooty Pep +, Zest and Wego. We want as a portfolio to grow and grow ahead of the industry, that is our focus. And now, we've NTOURQ, which is completely positioned for attracting new customer segments. So all put together, we will grow faster than the industry.

Operator [85]

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

Jinesh K. Gandhi, Motilal Oswal Securities Limited, Research Division - SVP of Equity Research [86]

My question pertains to the price increase which took from April of 0.5%. Is that sufficient to cover the cost inflation, which we are seeing so far or we would have [ticked] for the price increase?

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

It is -- the price increase is something which we will review regularly. This is the first of price increases what we have taken, but if you compare it with the cost increases, we will have to look at it further review on price increases which we will regularly do. So we'll continue to review on the situation and then we'll decide on the further price increases.

Jinesh K. Gandhi, Motilal Oswal Securities Limited, Research Division - SVP of Equity Research [88]

Okay, secondly with respect to our capacity. So considering that we have been growing quite substantially and we haven't invested materially in new capacity. Can you indicate what kind of capacity we have currently? And is there any plan to either expand through brownfield or greenfield route?

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

We have about close to 4.8 million capacity.

Jinesh K. Gandhi, Motilal Oswal Securities Limited, Research Division - SVP of Equity Research [90]

Okay. And this would be fungible between scooters and motorcycles?

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

Yes, it is there between all the model. And that will be sufficient definitely for the next 1 year.

Jinesh K. Gandhi, Motilal Oswal Securities Limited, Research Division - SVP of Equity Research [92]

Okay. And what would be your CapEx plans for FY '19?

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

We will be investing about INR 700 crores.

Jinesh K. Gandhi, Motilal Oswal Securities Limited, Research Division - SVP of Equity Research [94]

Okay. And this includes investment in subsidiaries or that would be?

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

This is for TVS Motor Company because we have all new products plus some supplementation of capacities, some supplementation of technology projects. And also BS-VI, there is an investment to follow, all the products should get ready by 2020. So, it's a combination of all, all put together.

Jinesh K. Gandhi, Motilal Oswal Securities Limited, Research Division - SVP of Equity Research [96]

Understood. And with respect to our current quarter interest and depreciation, you have seen an increase on Q-o-Q and Y-o-Y basis. Is there any one-off there or this is more sustainable number?

Unidentified Company Representative, [97]

Well, there is no one-off item here. One is depreciation increase because of the full year impact of what has been calculated during the year and also some of the Q4 capitalizations. And also the tools (inaudible) is also one of the reasons because of the Ind-AS implications. So that's the reason why depreciation have gone up. And interest, rate-wise it has not gone up but some working capital-related borrowings have gone.

Jinesh K. Gandhi, Motilal Oswal Securities Limited, Research Division - SVP of Equity Research [98]

Okay. And lastly in terms of tax rate, do we expect tax rate to remain at FY '18 level of about 25% or that should be?

Unidentified Company Representative, [99]

No. It will -- it is likely to go up because this year, the increase when compared to previous year is mainly because of 2 reasons. One, the tax holiday enjoyed for the HP brand is over, second is the R&D deduction which was at 200% being reduced to 150%. That's the reason why that has gone up during this year and also there was deferred tax-related liability that was returned back this year. And that's the reason why it is at 24% and this year it is likely to go up, likely to go up between 28% to 29%, because all other benefits are slowly being withdrawn now, therefore it will be around 28% to 29%.

Operator [100]

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

Sonal Gupta, UBS Investment Bank, Research Division - Director and Research Analyst [101]

Could you just -- I mean, you mention in the cost impact or the raw material cost that there is increased import duty on -- customs duty on imported parts. So what portion of your raw material cost would be imported component?

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [102]

About 15%.

Sonal Gupta, UBS Investment Bank, Research Division - Director and Research Analyst [103]

15%. And so this would be mainly like things like alloy wheels or is there something?

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

No, various parts from various countries. So all put together about 15%.

Sonal Gupta, UBS Investment Bank, Research Division - Director and Research Analyst [105]

Okay. And could you share the export revenues for the quarter and the full year?

Unidentified Company Representative, [106]

INR 950 crores for the quarter and year as a whole it's around INR 3,100 crores.

Sonal Gupta, UBS Investment Bank, Research Division - Director and Research Analyst [107]

Okay, sir. And just lastly, could you shed some light on the what sort of impact are we seeing on the cost side with the ABS coming in from April next year?

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [108]

Yes. That is -- this is too early, but this are part of any country which is growing up and we are also investing behind safety. I think, we are also making our emissions in line with whatever is happening in Europe, which is very good for the country. So there will be cost increases, but it will be across all models, you will see dealership to increase this cost. So the company is working on various technologies to optimize the cost.

Operator [109]

The next question is from the line of Pramod Pandey from Reliance.

Pramod Pandey, [110]

So just wanted to check, now that we are moving -- this year whatever we had guided on margins in Q4, and now given the outlook for first half. Can we assume that the trajectory for the double-digit margins has moved forward by almost 1 year or so?

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

I don't want to put any comment on the duration, but we will continue to focus on improved EBITDA margin. And definitely, the product mix improvement, the volume improvements and our cost reduction initiatives and also the growth in various brands will definitely help us to move in the right direction.

Operator [112]

The next question is from the line of Pulkit Singhal from Motilal Oswal Asset Management.

Pulkit Singhal, [113]

So you mentioned about competition intensity going up. Can you talk about the various segments in which this is happening? I mean, mopeds there is no one, so scooters, motorcycles and 3-wheelers? Is it across the 3 segments? And what is the nature of it? I mean, is it more like price cuts? Is this something that you've seen before in the industry or it's happening for the first time?

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [114]

I think more details, all of you must be knowing it. I think, the intensity is maximum in the entry-level and in the commuter side. So each competitor and each company has got a strategy. So we are very clear that we don't want to get into tactical actions, but we will invest behind the brand, come up with investment related to the [parts] upgrades and products. That is going to be our strategy.

Pulkit Singhal, [115]

Okay. And scooter side, have you seen that as well?

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

Scooter side, we have seen, but that is again left to the individual competitor. So -- but scooters again, we're seeing a good momentum in terms of the industry growing, overall industry segment proportion going up in scooters.

Pulkit Singhal, [117]

That's what, sir, given that you have the history of operating in the space, is this something which is relatively new, even for you, when you look back over a past decade, the kind of nature of competition or is this something which you think is regular comes and goes?

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

I think this is regular. The only thing is, if you can intensify it little bit because when raw material cost go up, when you have tacticals that continue, then there is a pressure. But this we have seen even in the past.

Pulkit Singhal, [119]

Okay. And sir, in terms of the dealer margin expansion, at least I haven't heard of any other players doing the same thing so in the last at least 2, 3 years as well, neither this quarter. So what is really the reason for that? Is it are we trying to push our products or what is the necessity for raising the dealer margins, what happened in GST really?

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

No, no. This is part of the process of the company. We review it once in 3 years, and then we takes the decision related to the market.

Operator [121]

The next question is from the line of the Deepika Mundra from JPMorgan.

Deepika Mundra, JP Morgan Chase & Co, Research Division - Research Analyst [122]

Sir, regarding the RR 310, what would be the volume target for next year?

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [123]

Which one?

Deepika Mundra, JP Morgan Chase & Co, Research Division - Research Analyst [124]

Sir, the RR 310, Apache 310.

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

Apache 310, currently we have started supplying around 1,000 per month. We will review it regularly, the acceptance in the market is extremely good. We will -- depending upon the plan of expansion, we have capacity to increase the volume. So this will be reviewed regularly.

Deepika Mundra, JP Morgan Chase & Co, Research Division - Research Analyst [126]

Okay. And sir, regarding the scooter market, do you see the 125cc space growing meaningfully next year -- both in terms of volume and in terms of profitability. Are you seeing a lot of competition again coming in that space impacting margins?

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

The scooter category share now is almost 33%. And it is very clear that when you have a segment which is growing like that, you will have the wide range starting from exactly like what we are seeing in the motorcycle, you will see an entry level, you will see an executive level, you will see a 125cc which is uniquely positioned for youths. So I think, this is part of development of any segment and market.

Operator [128]

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

Chirag Shah, Edelweiss Securities Ltd., Research Division - Research Analyst [129]

Sir, I had 1 question on pecking order of your products. So within the various segment, if you can indicate qualitatively which is top in terms of pecking order, in terms of profitability metrics and which would be on the lower end of the profitability metrics, in terms of segments or products. How should we look at it?

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

We look at from the customer point of view. Okay, each brand is positioned for certain set of customers. We don't peck it from the profitability point of view. We look at, for example Apache premium, super premium, it is focused around the youth of India, not only youth of India. We look at those customers globally, who are passionate about racing because RTR stands for that. And if you look at NTOUR, is it for again young customers, who are focusing on special experience with respect to scooters. Okay, if you look at Jupiter, it is a product for most of the commuter customers. So each brand we are positioning based on the customer understanding and the nature of how they use it.

Chirag Shah, Edelweiss Securities Ltd., Research Division - Research Analyst [131]

So profitability wise there may not necessarily be major difference in terms of margins, absolute profit there would be difference but between a moped or scooter or a motorcycle and within each various sub brands that you have, the profitability metrics may not be -- may be very different, may not be very different, you may not be giving much importance. Is this the way we should understand your business and that your focus is more on absolute EBITDA growth and value per -- EBITDA per vehicle growth rather than absolute margin as a focus area?

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [132]

Absolutely, we wanted to look at overall company doing better and better in EBITDA margin. And we would like to leverage all the brands, we would like to leverage our international business, we would like to leverage our 3-wheeler business. Overall, we wanted to grow revenue, we want to reduce our fixed cost, we want to focus on our cost reduction, invest behind our brand, so that we go towards increased and improved EBITDA margin.

Chirag Shah, Edelweiss Securities Ltd., Research Division - Research Analyst [133]

The second question is on the marketing and branding side. How different is the intensity and the nature of branding in the export market and the domestic market?

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [134]

I think, international markets, I think it's evolving, each market is different, okay. Some markets are -- in that comparison India is much evolved market. But some markets are advanced, some markets are evolving, some markets are in the basic level. So I think, yes, so I think our approach is first look at products and make -- understand the customer usage and make the products and the brands, and try to build those brands in those market. First focus on supporting them with paid service, spare parts availability, networks. But each market will evolve over a period of next 5 years, definitely it will evolve.

Chirag Shah, Edelweiss Securities Ltd., Research Division - Research Analyst [135]

But would it be ranged as a percentage of revenues, the spend in domestic would be higher than the spend in export. So if you have INR 3,100 crores of export revenue, as a percentage of that revenue, the spend that you do on various activities would be lower in export markets or the domestic market. Would that be a right statement?

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [136]

I think, here again we have to look at some are nascent market, some are developing market, some are slowly becoming developed markets. I think, we have to look at how the brand is getting built, how the overall revenue stream is becoming better and better, how we are growing ahead of the industry there that is the way we have to look at it.

Operator [137]

The next question is from the line of Raghunandhan from Emkay Global.

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [138]

And this will be the last question please.

Raghunandhan N. L., Emkay Global Financial Services Ltd., Research Division - Senior Research Analyst [139]

Sir, just wanted to understand the recent USD depreciation. How do you expect that to help?

Unidentified Company Representative, [140]

What was your question, sorry come back.

Raghunandhan N. L., Emkay Global Financial Services Ltd., Research Division - Senior Research Analyst [141]

The recent rupee depreciation against USD. How do you see that helping on the realization side?

Unidentified Company Representative, [142]

No, it's very too early to talk about it. There are...

Raghunandhan N. L., Emkay Global Financial Services Ltd., Research Division - Senior Research Analyst [143]

And sir, like on TVS Credit, what would be the stake TVS would have in TVS Motor Services. And TVS Motors Services does in turn hold 100% in TVS Credit, how does the shareholding stand as?

Unidentified Company Representative, [144]

TVS Motor Company holds 100% of TVSMS and TVS -- in TVSCS, it has got 84.9%.

Raghunandhan N. L., Emkay Global Financial Services Ltd., Research Division - Senior Research Analyst [145]

And sir, like for TVS NTORQ, like the product has been doing about 15,000 to 20,000 kind of monthly volumes. Do you think that is sustainable for the year?

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [146]

I think so far the feedback has been extremely positive. I think, we will definitely review it regularly. And we have opportunity, where ever we have opportunity, we have always invested in capacity. So being a new product in the new segment, we are happy, I think the way NTORQ is getting built in the market.

Raghunandhan N. L., Emkay Global Financial Services Ltd., Research Division - Senior Research Analyst [147]

And sir, like the capacity of 4.8 million units, I mean what would be 3-wheeler capacity?

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

The 3-wheeler, we can -- yes that is separate, that is about close to 180,000 per year.

Operator [149]

Due to time constraints, that was the last question. I now hand the conference over to Mr. Annamalai Jayaraj for closing comments.

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

I think 1 or 2 more questions we can take. I believe many people are there, so maybe another 5 minutes we can extend.

Operator [151]

Sir, we'll take the next question then from the line of Arya Sen from Jefferies.

Arya Sen, Jefferies LLC, Research Division - Equity Analyst [152]

Firstly, if you could talk about the dealership network expansion this year and what are the plans for next year?

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [153]

I think, this we review regularly. I think, dealership expansion is again based on the customer needs and based on the expansion of the cities and semi-urban areas and the rural area. So we constantly review that and keep expanding in line with whatever required.

Arya Sen, Jefferies LLC, Research Division - Equity Analyst [154]

So if you could share a number how much was it at the end of this year and versus last year and if there is a number target for next year?

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

These are all -- see there is no target here. We look at, we review it regularly. As of now we have about 1,150 dealers and about 3,000 sub-dealers, so this is as of now.

Arya Sen, Jefferies LLC, Research Division - Equity Analyst [156]

And what was that number last year sir, same time?

Unidentified Company Representative, [157]

It was less by 250 numbers.

Arya Sen, Jefferies LLC, Research Division - Equity Analyst [158]

250, right?

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

Yes, you're right.

Arya Sen, Jefferies LLC, Research Division - Equity Analyst [160]

And secondly on -- I just wanted to get your thinking on launching NTORQ was this maybe a 125cc version of Jupiter. Is that something you would think about and how did you look at it because different players are adopting either strategy. So what was your thinking behind launching NTORQ instead of launching 125cc of Jupiter and if that is something that could be done going forward, what are the merits and pros and cons?

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

I think every company has got a strategy, NTORQ is a unique brand. I think, it has got unique features and it is positioned against certain set of customers. And we are confident that NTORQ as a brand will do well and it will grow.

Arya Sen, Jefferies LLC, Research Division - Equity Analyst [162]

And lastly, sir, if you could share your marketing expense, sales and marketing expense this full year versus last year. What is the percentage of revenue or whatever way you can share it?

Unidentified Company Representative, [163]

Generally, we don't share this, only the one-off related expenses are given. It is just included with other expenses.

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

We'll take 1 more question.

Operator [165]

We will take the last question from Jay Kale from Elara Capital.

Jay Kale, Elara Securities (India) Private Limited, Research Division - Analyst [166]

Again coming back to the dealer margin bit, I just wanted to understand that this pass on of this dealer margin, is it different for different products in the sense, say for an Apache, you

might not have passed on the increase in dealer margins but say, where the competition has heightened into scooters or say, in the entry-level motorcycles. There your incentive given to the dealers will be much higher and hence a blended basis of 0.5% or is it uniform across all products?

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [167]

No this is across.

Jay Kale, Elara Securities (India) Private Limited, Research Division - Analyst [168]

So it is across all products?

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

Yes, all products.

Jay Kale, Elara Securities (India) Private Limited, Research Division - Analyst [170]

And in terms of your NTORQ customer profile, if I have to just understand, how is the initial response in terms of the customer profile? Is it upgrading from say 110cc Jupiter or Activa or is it that old earlier Activa 125 customers migrating in terms of replacement to NTORQ. So how is the customer profile of NTORQ?

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [171]

Too early because we started supplies sometime in March, April. So 2 months and it has just filled the channel and it has started retailing. So too early to comment on the profile of the customers of NTORQ.

Jay Kale, Elara Securities (India) Private Limited, Research Division - Analyst [172]

Okay so [just on the last one] just on the moped side, we understand from your earlier interaction that moped is largely a rural kind of a product, when -- well we've seen that in FY '17 when there were headwinds of demonetization in the rural bit, we saw a strong 24% growth while when the rural bit revived in FY '18, we saw decline in mopeds. So was it more to do with the specific markets not performing well, and how should one look forward even if rural does well in FY '19. How should one expect the growth of moped in the next 1 year and 1.5 years.

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [173]

I think, you put all the points very rightly, I think, the demonetization definitely affected much more the rural. And post that, we had the GST and the consequent changes. On top of it, I highlighted that in the entry-level some competitions there were significant price cuts. So as you know, rural India, it affects. But I'm hoping that this year, the monsoons are likely to be normal and very recently, we've also put an electric start moped in some markets in North. So I think, there is a good possibility while it may not grow significantly, but as a category, the customers likes moped and it will at least retain the category share.

Before we close, I just wanted to highlight that 2018, '19 -- '17-'18 was a good year for us, '18-'19 will be definitely a good year. Overall, we have very good portfolio in terms of the products and our domestic will continue to grow ahead of the industry. Also international will continue to grow ahead of the industry and 3-wheelers will continue to grow ahead of industry. The monsoon is likely to be normal and the initiatives on cost reduction and the strong portfolio will definitely -- will substantially mitigate the cost increases and definitely help us to improve our EBITDA performance in 2018-'19. Thank you.

Operator [174]

Thank you. Mr. Annamalai Jayaraj, any comments from your end?

Annamalai Jayaraj, Batlivala & Karani Securities India Pvt. Ltd., Research Division - Director & Deputy Head of Research [175]

On behalf of B&K Securities, we thank Mr. K. N. Radhakrishnan and Mr. Gopala Desikan for taking time out to discuss the result. We also thank TVS Motor management for providing us the opportunity to host the call. Thanks all for joining the call.

K. N. Radhakrishnan, TVS Motor Company Limited - President & CEO [176]

Thank you, so much to everyone.

Operator [177]

Thank you. Ladies and gentlemen, on behalf of Batlivala & Karani Securities, that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines