

## DIRECTORS' REPORT TO THE SHAREHOLDERS

The Directors have pleasure in presenting the twenty-sixth Annual Report and the audited accounts of the Company for the year ended 31<sup>st</sup> March 2018.

### 1. COMPANY PERFORMANCE

The Company continued to grow ahead of the industry for the third year in succession, registering sales of 33.67 lakh two-wheelers in 2017-18, growing by 17.8% over last year. Sale of motorcycles increased by 25.8% and scooters by 30.4%. Three-wheeler sales of the Company increased by 42.5% in 2017-18. Sale of spare parts grew by 16.6%.

The Company continues to lead the customer satisfaction in products and services, and bagged top honors at the J.D. Power 2018 India Two-Wheeler Initial Quality Study (2WIQS), Automotive Product Execution & Layout (APEAL) study and Two-Wheeler Customer Service Index (2WCSI). The Company has been top ranked in JD Power 2WCSI since its inaugural study in 2016.

The revenue for the year ended 31<sup>st</sup> March 2018 are not comparable with the previous year consequent to introduction of GST effective 1<sup>st</sup> July 2017. For comparison, the total revenue of the Company excluding excise duty increased from Rs. 12,309 Cr in the previous year to Rs.15,274 Cr in the current year. Profit before tax increased from Rs. 699 Cr in the previous year to Rs.879 Cr in the current year. Similarly, Profit after tax increased from Rs. 558 Cr in the previous year to Rs.663 Cr in 2017-18.

### 2. FINANCIAL HIGHLIGHTS

Details	Year Ended 31-03-2018	Year Ended 31-03-2017
<b>SALES</b>		
<b>Quantitative</b>	(Numbers in Lakhs)	
Motorcycles	13.55	10.77
Mopeds	8.77	9.11
Scooters	11.35	8.70
Three-wheelers	0.99	0.69
<b>Total vehicles sold</b>	<b>34.66</b>	<b>29.27</b>
<b>Financials</b>		
	(Rupees in Crores)	
<b>REVENUE</b>		
Motorcycles	6075.88	4628.13
Mopeds	2149.74	2069.74
Scooters	4338.29	3337.84
Three-wheelers	856.18	647.96
Spares & Accessories and raw materials	1547.97	1327.59
Other Operating Income	161.60	124.05
Other Income	144.78	173.37
<b>Revenue excluding excise duty</b>	<b>15274.44</b>	<b>12308.68</b>
Excise Duty	# 343.22	1054.75
<b>Revenue including excise duty</b>	<b>15617.66</b>	<b>13363.43</b>

Details	Year Ended 31-03-2018	Year Ended 31-03-2017
	(Rupees in Crores)	
EBITDA	1273.99	1030.44
Less:		
Finance Charges & Interest (Gross)	56.62	43.95
Depreciation	338.73	287.81
Profit before tax	878.64	698.68
Provision for tax	216.05	140.60
<b>Profit after tax</b>	<b>662.59</b>	<b>558.08</b>

# Includes Excise Duty upto June 2017.

### 3. DIVIDEND

The Board of Directors of the Company (the Board) at their meeting held on 1<sup>st</sup> November 2017, declared a first interim dividend of Rs.2/- per share (200%) for the year 2017-18 absorbing a sum of Rs. 114.36 Cr including dividend distribution tax. The same was paid to the shareholders on 14<sup>th</sup> November 2017.

The Board at its meeting held on 26<sup>th</sup> February 2018 declared a second interim dividend of Rs. 1.30 per share (130%) for the year 2017-18 absorbing a sum of Rs.73.27 Cr including dividend distribution tax. The same was paid to the shareholders on 12<sup>th</sup> March 2018.

Thus, the total amount of both dividends for the year ended 31<sup>st</sup> March 2018 aggregated to Rs. 3.30 per share (330%) on 47,50,87,114 equity shares of Re.1/- each absorbing Rs.187.63 Cr including dividend distribution tax, since the Company has set-off its dividend distribution tax payable under Section 115-O(1A) of the Income Tax Act, 1961 to the extent available against the dividend distribution tax paid by one of its subsidiary company on its dividend declared.

The Board does not recommend any further dividend for the year under consideration.

### 4. MANAGEMENT DISCUSSION AND ANALYSIS REPORT

#### INDUSTRY STRUCTURE AND DEVELOPMENTS

##### Two-wheeler

In the domestic market, two-wheeler industry sales grew from 176 lakh units in 2016-17 to 202 lakh units in 2017-18, registering a growth of 15% over last year. The first half of the year saw a growth of 10% led by re-stocking required due to BSIII to BSIV transition. The second half grew by 20% over the same period of 2016-17 which was affected by demonetization.

Scooter as a category continued to gain category share in total two-wheeler industry. Scooters grew at 20% (from 56 lakh units to 67 lakh units) led by urban demand and

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the category share increased from 32% in 2016-17 to 33% in year 2017-18.

The motorcycle category grew at 14% (126 lakh units). Within motorcycles, continued traction in urban demand enabled the premium segment to grow by 11% (from 17.1 lakh units in 2016-17 to 18.9 lakh units in 2017-18). Commuting segment also grew by 15% (from 84 lakh units in 2016-17 to 97 lakh units in 2017-18) compared to a flat growth in past 5 years. This trend change in commuter segment was triggered by revival of rural demand.

Crude oil prices recovered steadily during 2017-18 and drove economic recovery in the international markets. Currencies stabilized and foreign exchange availability improved in affected countries of Africa, leading to recovery of the exports industry in 2017-18 from a low base in 2016-17. Bangladesh, Mexico, Argentina, Philippines and West Africa saw an increase in demand. Consequently, exports of two-wheeler from India grew by 20% during 2017-18.

### Three-wheeler

Overall three-wheeler small passenger industry (3 plus 1 segment) grew by 39% in 2017-18 (from 4.58 lakh units in 2016-17 to 6.35 lakh units in 2017-18). Domestic industry grew by 41% and exports from India grew by 37% over 2016-17. Growth in domestic passenger market was largely driven by significant growth in Maharashtra State due to opening of permits. Export market growth was a result of market recovery in Nigeria and Egypt and expansion of some new markets.

## BUSINESS OUTLOOK AND OVERVIEW

Economic activity is expected to improve in 2018-19, benefitting from improved macro-economic environment in both domestic and global markets.

In India, focus on agriculture and rural development rolled out in the recent union budget, supported by possibility of a normal monsoon, is expected to positively influence demand from rural markets. Improving credit growth supported by bank re-capitalization, along with continued government focus on infrastructure is expected to drive growth.

Crude prices have been rising over last one year and this trend is expected to continue in 2018. On one hand, this trend will continue to aid export market growth, however on the other hand, rising commodity prices will put cost pressures in the year 2018-19.

Consequently, the growth in two-wheeler industry during 2018-19 is expected to be around 8-10% over 2017-18.

### New Product Launches and Initiatives

The Company has a strategic partnership with BMW Motorrad to develop and manufacture sub-500cc bikes both for domestic and global markets. The Company manufactured and supplied 26,471 units of G 310 R and G 310 GS in the year 2017-18 for BMW Motorrad Company.

During the year 2017-18, the following new products and variants were launched.

### TVS Apache RR 310:



TVS Apache RR 310 marks a significant step in Company's history - TVS forays into super-premium motorcycles with this launch.

Inspired by 35 years of TVS Racing, TVS Apache RR 310 combines superior performance & riding dynamics with a fully faired sporty design.

The motorcycle gets a 312cc, single cylinder, 4V, liquid cooled, 6-speed engine that delivers a top speed of 160 kmph and acceleration from 0-60 kmph in just 2.9 seconds. TVS Apache RR 310 comes with an all-new, race origin, light-weight trellis-frame chassis for enhanced stiffness in straights and flex for dynamic cornering capability, that result in best-in-class riding dynamics.

The product created an instant excitement and garnered acceptance among the racing enthusiasts.

### TVS Apache RTR 160 4V:



The Apache RTR 160 4V is the latest addition to the Apache portfolio, it's not a sports bike, it's a Race Machine. This machine is born out of the six-time Indian National Motorcycle Championship (INMRC) winning motorcycle –

(Group B) RTR 165. Every feature on the Apache is honed on the race track to deliver the best in racing performance. The TVS Apache RTR 160 4V is available in both Carburettor and Electronic Fuel Injection (EFI) variants, with the latter christened as TVS Apache RTR 160 Fi 4V. Staying true to its racing pedigree, the TVS Apache RTR 160 4V has the powerful 160cc engine, enabling the best performance in its class and best-in-class power-to-weight ratio. The motorcycle does 0-60 kmph in 4.8 seconds (EFI) and 4.73 seconds (Carburettor).

### TVS NTOUQ 125:



Designed for Gen-Z, TVS NTOUQ 125 provides revolutionary riding experience with cutting edge style, performance and technology. Based on TVS racing pedigree, TVS NTOUQ comes with a 125cc, 3V CVTi-Rev engine. The first ever Bluetooth connected scooter with

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TVS Smart Xonnect, TVS NTORQ is equipped with caller ID, Navigation assist and app-enabled technology.

Stealth Aircraft-inspired design and 30 industry-first features make TVS NTORQ a one of its kind product in the segment.

The product has garnered raving reviews and aims to gain mindshare among the youth of today.

### TVS Jupiter Classic:



Since its inception, Jupiter brand has represented novelty. Launched in 2013, the scooter has now reached the 2.3 million mark in sales. The ability to develop tailor-made scooters for customers is the inspiration behind the

creation of TVS Jupiter & its variants. The new Jupiter Classic edition is an embodiment of style. It comes loaded with a host of unique features such as 'Classic-Edition' Decals, elegant Full Chrome Mirrors, a classy Chrome Pillion Handle and a choice of exclusive colours - Sunlit Ivory and Autumn Brown. Thoughtfully designed features like a Smart USB Charger, stylish windshield, Classy backrest, Side Stand Indicator and a comfortable Dual Tone Seat ensure a great riding experience.

All this and more makes the 'Classic-Edition' a true example of brand Jupiter's philosophy, 'Zyada ka Fayda', offering more than 15 features and benefits for the Indian commuter.

### TVS XL100 HD:



XL100 Heavy Duty vehicle aims to be a partner of the customer in his success by providing more utility, power and ruggedness through more pick up, "Duragrip" tyre and heavy duty wheel assembly.

The superior quality of the Company's products and services is well established again in the recent JD Power Study 2018.

It is a significant feat for the Company that in the JD Power APEAL study 2018, its products have been ranked No. 1 in all the product categories the Company participated in. TVS Jupiter in scooter segment, TVS Apache RTR 180 in motorcycle premium segment and TVS Star City Plus in motorcycle economy segment holds the top position.

The Company retained the No.1 position in the CSI study 2018 by JD Power for third year in a row.

### Domestic Sales

The Company achieved sales of 28.7 lakh units of two-wheelers in the domestic market. With these sales, the Company registered a growth of 15.5% in the year 2017-18 over last year.

In motorcycles, the Company achieved sales of 9.2 lakh units and registered a growth of 18.6% over 2016-17. TVS Apache accelerated its growth trend with 35% growth over last year. New TVS Apache RR 310 was received very well in the market and is contributing well to the Apache brand.

In scooters, the Company achieved sales of 11.0 lakh units and registered a growth of 33% over 2016-17. TVS Jupiter maintained the momentum with a 32% growth over last year. The growth was largely supported by the special "Classic Edition" which also helped in bringing a premium image to the product. Launch of TVS NTORQ 125 is expected to bring a new segment of customers.

The Company has strong distribution network of authorized dealers across India and continuously seeks to increase its reach.

### Exports sales – two-wheeler and three-wheeler

The Company's two-wheeler exports in the year 2017-18 were at 4.9 lakh units and witnessed an improvement with a growth of 33.7% over 2016-17.

The Company's three-wheeler exports in the year 2017-18 were at 0.8 lakh units and recorded a 44.4% growth over 2016-17.

### Implementation of Goods and Services Tax Act (GST)

Effective 1<sup>st</sup> July 2017, the Company has successfully & seamlessly transitioned to new GST regime. The Company also supported dealers & suppliers to change over without any disruption in their respective businesses. The Company has passed on the benefits arising out of GST changeover to its customers.

### Opportunities and Threats

Proposed thrust in rural India, efficient implementation of various Government schemes such as minimum support price of 1.5 times of the production cost and improved rural economy will aid improvement of two-wheeler penetration.

Growing middle class, aspirational life style, need for mobility and increased penetration levels will continue to trigger growth of two-wheeler industry. Impetus from 7<sup>th</sup> pay commission and payment of related arrears are further expected to boost the two-wheeler industry.

Alternate energy based mobility vehicles and solutions have gained traction in the year. Rising pollution levels in Indian cities and target to become energy independent are the major factors for such a push towards greener mobility.

The Company is committed to support this initiative by developing suitable technology and business solutions. Strong presence of the Company in all segments of two-wheeler industry, planned new launches and expanded network of dealers will help the Company to consolidate its gain further and grow ahead of the Industry in the coming years.

### RISKS AND CONCERNS

Good monsoon and stable policy environment are essential for growth in domestic two-wheeler demand. The sustained

momentum in scooters and motorcycles and success of planned launches is vital to achieve business objectives.

International factors such as geo-political scenarios and rising crude oil prices are being continuously monitored for both risks and opportunities.

Recent rise in commodity prices and intensifying competition with pricing led marketing actions remain a concern for bottom-line. The Company will initiate various cost reduction measures to mitigate this risk.

The Company is also investing in greener emerging technologies towards the future consumer preference shifts.

### RISK MANAGEMENT

The Board has established a robust Risk Management framework to identify, monitor and minimize risks as well as to identify business opportunities.

Risk evaluation and management is an ongoing process. As a process, risks associated with the business are identified and prioritized based on the Company's overall risk appetite, strategy, severity and probability of occurrence.

The risk function is looked after by a team under CEO of the Company. Process owners are identified for each risk and metrics are developed for continuous monitoring and minimization of risk.

The Board is satisfied that there are adequate systems and procedures in place to identify, assess, monitor and manage risks. The Company has constituted a separate Risk Management Committee on 16<sup>th</sup> May 2018 for overseeing all the risks that the Organization faces such as strategic, financial, marketing, IT, legal, regulatory, reputational and other risks and recommends suitable action. Risk mitigation policy has already been approved by the Board.

### OPERATIONS REVIEW

#### Total Quality Management (TQM)

TQM continues to be the backbone of the Company's approach for sustainable growth through customer satisfaction. Continuous monitoring of performance measures and immediate actions to address such identified gaps have strengthened the process across the Company.

This year, primary focus was on problem solving for recurrence prevention through systemic root-cause analysis. The Company has enhanced its executives and managers' problem-solving competency by certifying 111 of them in Green belt and Black belt in the current year. On the whole, 518 employees are now Green belt and Black belt certified. All employees have been involved towards achieving business goals. Significant contributions from the highly committed workmen through suggestion schemes and Quality Control Circle (QCC) projects have yielded significant results in achieving Quality Cost Delivery (QCD) targets and eliminating unsafe incidents.

#### Cost Management

The Company continues to focus on all elements of cost. Raw materials, components and conversion cost constitute major element of material cost. Focus on employee

productivity and effectiveness of communication helps to reduce fixed cost of the Company.

Process improvement, waste elimination and productivity improvements across the supply chain will continue to receive greater attention. The Company will pursue process innovation, value engineering and alternate sourcing to reduce material cost during this year.

#### Research & Development (R&D)

The continued pursuit of engineering excellence, best-in-class quality and technology development by the Company's Research and Development (R&D) team has resulted in delivery of highly appealing new products during the year, namely, Apache RR 310, TVS NTORQ 125 and TVS Apache RTR 160 4V.

The team is continuously working on many advanced engine technologies to improve fuel efficiency, performance and to meet future emission norms for international and domestic markets. The team is working towards timely readiness of the Company's product portfolio compliant with BSVI emission norms. It continues to work on hybrid technology, which has reached a mature state and advanced brake systems technology for improved safety.

The R&D team continues their efforts in developing cutting-edge technologies that are relevant for the near and long term future requirements of the Company's business plans. These developments are centered on customers, emerging needs of environment, safety and sustainability. The Company also collaborates with leading research establishments and educational institutions, both within and outside the Country to explore and develop breakthrough opportunities. The R&D team has so far published 110 technical papers in national and international conferences.

TVS Racing continues to add valuable inputs to the new product development by leveraging its advanced capabilities and racing experience. In the last year, the Company's racing team had 93% winning positions in the events that it participated. TVS Racing has won 14 out of 16 National championships.

#### Information Technology (IT)

The Company enhanced the customer engagement through mobile apps and digitizing customer touch points at dealerships. The Company also launched TVS NTORQ app with the first-of-its-kind connected scooter launched in February 2018.

The Company continues to implement several projects to improve its efficiency, transparency and process control across supply chain from dealer to supplier. Various initiatives on industry 4.0 are being adopted for improving quality and waste elimination.

As part of continuous improvement and benchmarking, the Company's IT systems were audited by external experts and their recommendations were implemented. To enhance information security, various new IT security tools were implemented and periodic audits are conducted by external experts and necessary control measures are being taken.

The Company is ISO 27001:2013 certified for all its manufacturing units and sales offices. Business continuity plan for major business and design applications have been implemented and tested. The Company is apprised of Capability Maturity Model (CMM) level 3 for its IT development process.

### INTERNAL CONTROL AND THEIR ADEQUACY

The Company has a proper and adequate internal control system to ensure that all the assets of the Company are safeguarded and protected against any loss and that all the transactions are properly authorized and recorded. Information provided to management is reliable and timely. Company ensures adherence to all statutes.

#### Internal Financial Control

The Company has an established Internal Financial Control framework including internal controls over financial Reporting, operating controls and anti-fraud framework. The framework is reviewed regularly by the management and tested by an Independent Valuer and presented to the Audit Committee. Based on the periodical testing, the framework is strengthened, from time to time, to ensure adequacy and effectiveness of Internal Financial Controls.

#### Occupational Health & Safety (OHS)

The Company was conferred with “Environmental Leadership Award” from Government of Himachal Pradesh in recognition of Company’s outstanding contribution towards environment protection, conservation and sustainable development. The Company also published its first Sustainability Report in accordance with CORE Reporting principles of the GRI G4 Guideline in public domain. Company’s manufacturing plants are certified under revised ISO 14001: 2015 standards.

Reducing environment footprint is the prime focus of the Company. Hosur and Mysuru plants have achieved Zero-Liquid Discharge (ZLD) by recycling and reusing of treated trade effluent. Following conservation measures have been adopted towards water conservation viz., water accounting, waterless urinals, dish washer in canteen and fully automatic vehicle wash system. The Company is continuously increasing the share of renewable energy. It was 64% during 2017-18 compared to 29% during 2016-17. These initiatives helped the Company to reduce its Carbon foot print.

Hazardous wastes viz., paint sludge and chemical sludge are co-generated in cement factory and onsite storage of hazardous waste in secured landfill is nil. Towards abatement of Volatile Organic Compounds (VOC), Regenerative Thermal Oxidizer (RTO) has been commissioned in Hosur & Mysuru plants.

The measurement of ambient VOC is made online to Care Air Centre of Tamil Nadu Pollution Control Board. Direct in-situ measurement of key parameters like pH; Chemical Oxygen Demand (COD); Biological Oxygen Demand (BOD); Total Suspended Solids (TSS) were introduced in Sewage Treatment Plant, Hosur.

Towards digitization initiative, forms and returns under applicable Environmental Acts and Rules were made online.

The Company has successfully completed 2<sup>nd</sup> surveillance audit in 4<sup>th</sup> re-certification audit process of Occupational Health & Safety System through implementation of BS OHSAS18001:2007 standard in Hosur & Mysuru plants. During the year, as a part of continual improvement in safety, around 751 proactive hazard control measures have been implemented across Hosur, Mysuru and Nalagarh Plants. The Plant Safety Rating System (PSRS) score improved from 195 to 211 and all plants have sustained “Gold” status. The Company has achieved a reduction of 53% in frequency rate of accidents & 98% in severity rate of accidents. 13 lakh man-hours have been completed with “zero injury” during plant expansion civil construction activities at Hosur site last year. Towards building a sustainable safety culture, periodical safety trainings have been organized and 15746 employees were covered. Also as a part of “Buckle up & Strap up” – Road Safety campaign, around 300 test riders & drivers were trained on road safety.

### HUMAN RESOURCE DEVELOPMENT (HRD)

Constituents of Human Resource Development framework followed by the Company include Workforce planning, Employee Engagement, Performance & Compensation Management, Learning and Development, Career & Succession Planning and Organization Development. Towards sustenance and delivering improved results, these constituents have a structured approach, policies and standard operating procedures which are reviewed and updated periodically.

Current and future skill-based competency development are planned and executed through both in-house programs and globally acclaimed programs, continuing education, challenging project assignments and job rotations.

The Company continues to maintain its record of good industrial relations without any interruption in work. As on 31<sup>st</sup> March 2018, the Company had 5,184 employees on its rolls.

### CAUTIONARY STATEMENT

Statements in the Management Discussion and Analysis Report describing the Company’s objectives, projections, estimates and expectations may be “forward looking statements” within the meaning of applicable securities laws and regulations. Actual results could differ materially from those expressed or implied. Important factors that could make a difference to the Company’s operations include, amongst others, economic conditions affecting demand/supply and price conditions in the domestic and overseas market in which the Company operates, changes in the Government Regulations, Tax Laws and Other Statutes and Incidental Factors.

### 5. DIRECTORS’ RESPONSIBILITY STATEMENT

In accordance with the provisions of Section 134(5) of the Act, 2013, with respect to Directors’ Responsibility Statement, it is hereby stated –