"Tube Investments of India Limited Q3FY13 Results Conference Call"

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Moderator Ladies and gentlemen, good day and welcome to the Tube Investments Q3FY13 Results Conference Call hosted by Axis Capital Limited. As a reminder, for the duration of this conference, all participants' lines will be in a listen-only mode, and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call, please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Kashyap Pujara from Axis Capital Ltd. Thank you. And over to you sir.

Kashyap Pujara Yes, hi, good afternoon, everybody. Thanks for attending this call. We are grateful to have management of Tube Investments on the call today. From the management side we are represented by Mr. Ramkumar who is the Managing Director; and Mr. Rajagopal who is the VP Finance. I will not take too much time and now I hand over the floor to Mr. Ramkumar. Over to you sir.

L. Ramkumar Thank you, Kashyap. Good afternoon to all of you for taking time off to join us for this call. I shall start with the consolidated results of Tube Investments. We increased our top line by 13% on a consolidated basis. The margin profit before finance cost and exceptional item went up from 8.6% for the quarter the previous year to 10.9%. As a result, the profit after tax went up to 109 crores as against 72 crores, increase of around 47% over the previous period same year. As far as the Financial Services business is concerned we did extremely well. You might have seen the disbursements in Chola Investment went up by 36% and this resulted in the PBT going up and PAT going up from 41 crores to 81 crores on a standalone basis and consolidated 40 crores to 81 crores. All the ratios definitely improved as a result. In the case of Chola MS there was an improvement in the gross return premium by 12% which is a very good growth, definitely that help the growth of the PAT significantly from 2 crores to 16 crores for the third quarter 2012-2013 against 2011–2012.

Now, I come to the standalone Tube Investments of India Limited where we have had problems during the quarter. Overall, due to sluggishness in the Auto industry to which we cater mainly. Apart from the Bicycles business I will explain each of these in detail as we go along. Overall, the company turnover came down by 13% and this meant that there has also been a pressure on the margins, partly due to the volume drop, partly due to the power cut situation with a large portion of our production coming from Tamil Nadu and Andhra Pradesh where the power cuts were very severe, as well as input cost increases not being passed on to the customers in a very difficult market. This meant our profit before finance cost and exceptional item came down from 7.2% to 5.8%, a drop of 1.4%. And the profit after finance cost and before exceptional items again came down from 5% to 1.9%, mainly due to interest increase in finance cost, there were no additional borrowings during the quarter; however, the full impact during the quarter of borrowings done in the earlier quarters pushed up the finance charges.

Coming to the extraordinary item of 3.81 crores, we had set up a subsidiary in China, mainly to import parts for Bicycles and Scooters because we were importing a large portion of components for Bicycles and also some kids Bicycles. As you know during the last union budget the rate of duty for components went up by 20% and fully built Bicycles went up by 30%, coupled with the exchange rate adverse situation, we had to slowly look at indigenous sources for all these parts. I am happy to say that as we are talking we are almost completed 90% to 95% of the indigenization and then we also found that this means the utility of this outfit in China is no longer relevant for us, we were having people there, who have to contact the suppliers, inspect the parts, etc., So, we decided that we need to wind up this operation. The Rs. 3.81 crores hit provision for diminution in value of investments in subsidiary is as a result of this. The procedures that are required as per the local government there is going on and then we would finally get certificate of closure may be in a year’s time or so as per the various steps that are involved.

Coming to the individual segments within TI, you would see in the Bicycles and Components the margin has come down from 4.6% to 1.7% as the total, this is the PBIT margin, this is after adjusting the 3.81 crores which we have shown as diminution in value of investments. This alone as you may see accounts for 1.4% difference. Beside this during the quarter, if I compare this quarter vis-à-vis the Q3 of 2011–2012, 2011–2012 had institutional sale of 1,80,000 cycles and during the quarter we had only 20,000 cycles. If you know in Q2 we did 3,00,000 vehicles of institutional orders which was completed in Q2 itself as against over two quarters during the last year, last year we completed the institutional order over Q2 and Q3, this time we completed everything in Q2. So, Q3 will to that extent look much less compared to the Q3 of last year as well as Q2 of this year. Added to this during the general slowness in the footfalls as well as the consumer demand there has been a drop of around 18% in the sale of Bicycles through the trade. This has also affected the margin to some extent besides the increase in fuel cost which is due to usage of genset instead of the regular power at various plants which could not be passed on, the entire industry was going through a lot of tough times with lot of people putting margins and prices under lot of pressure. This has had an impact on the Bicycles business.

Going forward we are confident the retail expansion which we continue to do and also the new products which we are introducing have received very favorable kind of response. On top of it our indigenization program of the products which are being imported has also happened which will also improve the overall situation in terms of availability and pricing, we see a more optimistic quarters going forward.

In Engineering division, largely dependent on automotive, I think you are all very much aware of the growth in two-wheelers, four-wheelers. Commercial vehicles really went down. This definitely had an impact in terms of the volume of the business as well as in terms of the power cost we had to use the generator sets to keep the lines going and also keep the OEMs fully supplied. This had an impact on the margin and hence the Engineering margin did come down during the quarter.

In the Metal Formed products railways continue to elude us in terms of the volume. They did not release any orders. The company has been having inventories to service this but on the Automotive sector the doorframes we did reasonably well in line with the market, the models which we were supplying in terms of Hyundai, General Motors and others did well which helped us. And in the Chains, the OEM market was definitely affected because two-wheelers did not grow as it has been growing in the past. We did make some impact in terms of improving the after-sales market through our own dealers because this has been a thrust area for us. We had a good growth here and some good contracts in the Fine Blanking area where we are doing some new products for existing passenger vehicle manufacturers. So, overall this is the situation as far as the quarter is concerned and I will be very happy to answer any questions that any of you may have. Thank you.

Moderator Thank you very much sir. Ladies and gentlemen, we will now begin the question-and-answer session. Our first question is from Gautam Chhaochharia of UBS, please go ahead.

Gautam Chhaochharia Just a couple of things, one is can you elaborate a little bit more on the outlook part in terms of what the trends you are seeing right now, you highlighted the issues you faced in the third quarter, but how are those issues panning out in the current quarter and beyond? And the second question is on the MS General Insurance part as to the drivers behind the profitability which you saw in this quarter, how sustainable they are?

L. Ramkumar There are two major sectors we need to look at for standalone Tube, one is the automotive sector. I think enough has been researched and enough material is available in the public domain so we are also largely guided by that as well as whatever we pick up from the OEMs. I think the outlook is moderate. I am not able to say now whether there will be big growth or may be there won't be a very great fall is what I think, I would also like to hear from some of the investors who might have a much better perspective on this having heard many automotive companies. But on the power situation we don’t see any change happening in the next at least one more quarter up to June, there is a lot of talk in Tamil Nadu about revival of the power plants, refurbishing, etc., so, this is likely to continue. So what we are doing at the company level is trying to keep a tight control on cost and also on cash flows in terms of working capital, this is the kind of things which we are looking at.

On the Insurance side I think as you know we have gone largely retail and this is one of the things which is giving us benefit for the growth and there has been some absorption of the motor pool losses which we have also mentioned in our results. Going forward in four quarters we have to absorb something. Overall, I think efficiency in terms of getting more productivity from our branches in terms of the number of big successful hits, the hit rate and quick service I think has been the reason for the growth in the premiums in Insurance. Hope I have covered the points which you wanted.

Gautam Chhaochharia Yes, one more thing, again you highlighted about Auto, Infra, etc., but specifically in terms of margins again the growth part which we can understand the macro part and how things possibly we can take a call on the outlook do you think there is a potential for it to recover in the current macro construct or do you think it will sustain artificially at these levels?

L. Ramkumar There is element of margins which can be influenced by internal efficiencies. Definitely, we are working on all of them. If it is Power cost we are looking at energy conversation, we are looking at yield improvements, we are looking at more throughput through the same equipments or shutting down some equipment in order to see that we don't run anything partially. There could be some positive impact but there is also an impact on the margins due to the volumes which cannot be compensated I think beyond a point on efficiency. So definitely I am hopeful that some portion of this volume drop related impact will be mitigated by the internal efficiency, a lot of work is being done, and we are focusing on that, this is what I can say at the moment.

Gautam Chhaochharia What is the status on all the expansion plans?

L. Ramkumar On the expansion plans, on the large-diameter project which we have been talking about which is in non-auto sector we have acquired the land and we have also applied for the various permissions. The equipments also being ordered, I think various equipments are expected in the next two three months. So the sooner we get this approval from the government for all these various from these agencies we will start the groundbreaking ceremony sometime may be hopefully in March and then it will take nine months for us to complete the building and commission the plant. So that is on stream. As far as the other expansion-related projects are concerned whatever we thought we are going to commence the investment now and completed during the financial year 2013 – 2014 we are putting them on hold and we would be taking the call some time during the middle of this year that is around September both in the case of Tubes and Chains whatever we had announced is a northern region plant or expansion in Chennai itself we will have to really wait and watch how the volumes are moving. We are ready with all the plans and we are ready with the suppliers so it may be a question of pacing. Right now, we will be little cautious about committing further funds and the CAPEX on that.

Gautam Chhaochharia But in light of that what is your likely CAPEX amount actually in FY13 and potential in FY14?

L. Ramkumar This year we have done so far around Rs. 170 crores and we may end up in the range of Rs. 230 crores to 250 crores. The balance mainly coming from large-diameter project and also we completed the land purchase in various places, both in the north as well as in the south that's also a significant portion of this. Next year we are still in the process of making the plans, may be by middle of March I think we will have a clarity about what's the final CAPEX we are going to do, but broadly the thinking is if it is totally new value added project or import substitution where the customer is ready and has got now great bearing on the recession, we are going ahead with the CAPEX. Wherever it is volume-related, expansion-related if it is a marginal requirement increase in one year, we may have to spread the assets further to see how do we get this out of it and then puts this by six months or one year. We have got all the plans ready, we have got the land ready, so our ability to move faster will be far better than may be what it was 12 months back.

Moderator Thank you. Our next question is from Ameen Pirani of Deutsche Bank, please go ahead.

Ameen Pirani My question is on the Bicycles business. Sir, just wanted to understand, when you talk about institutional sales, can you just explain what do you mean by institutional sales?

L. Ramkumar What happens is that the governments in our case, we participated in two tenders, Tamil Nadu and Karnataka. So, normally there are four players in the country and everybody get almost an equal share you can say. So this is like, if it is state order we get 150,000 Cycles something like that, we did around 300,000 Cycles of this in the last quarter, this is I think 50% Tamil Nadu, 50% Karnataka, government gets it and gives it on scheme and I think they give it free, whatever social and all that process, actually there is also a margin is low but the fixed cost may be also not very high because there is a marketing cost involved, we have a lot of logistics and stuff like that. So that's what I mean by institutional sales. So during the last year we did 180,000 of these in Q3 of 2011–2012, this year we did only 20,000 Cycles of this. So that has got an impact on the total volume that's what I meant actually.

Ameen Pirani But generally institutional would be broadly what percentage of your overall Cycle volumes like over a year 30% at max?

L. Ramkumar No, I tell you may be 7% to 8%.

Ameen Pirani And on an overall basis for Cycles, what would be the mix between urban and rural for you?

L. Ramkumar Rural, semi-urban, urban may be 25% - 30%, real urban as we call, balance will be semi-urban and rural.

Ameen Pirani And so what kind of trends are you seeing? Because we have been seeing that at least, I don't know if it's a fair comparison, two-wheelers are still doing relatively okay in both urban and semi-urban at least that was the company they are telling us, are you seeing a divergent trend in Cycles and is that generally the case historically?

L. Ramkumar No, I think many of you know that there are two categories of Bicycles, one is traditional Bicycles in black and green color, this is coming down that's now coming down in terms of numbers affecting the entire industry and this is still 40% - 45% of the total volume. So there is a certain pricing power, distribution, etc., if you have these Bicycles, but there are certain segments like the Children's Bicycles, Kids Bicycles we call them, this will grow, this is growing. And there is real high-end Bicycles with the price of may be 6,000 to 7,000 and more, may be a small market but it is growing.

Ameen Pirani But high end segment would be mainly urban, right?

L. Ramkumar Semi urban also because that is an aspirational thing and there is very, very low reach and penetration in terms of women for 50% of country is women that is also growing. So as it gets bigger as a proportion we will have much more benefit. We, as a company, concentrate more on the non-standard Bicycles. That is why I have talked about new products and stuff like that, the ground level, we believe this will definitely help us in terms of generating more demand.

Ameen Pirani So, sir I mean I think over a longer period of time I think Cycles growth rate generally tends to be I think around 8% to 10%. This year has been a difficult one. What kind of growth are you expecting say next year?

L. Ramkumar It's difficult, it will be moderate, I can't say. I think there is a demand generation activity which can also propel the Bicycle growth. We have seen every kid will buy a bicycle compared to 10 years back, children buy more than two, three cycles and some implications on monsoon and all these things also, where the farmers have more money, they tend to purchase, so we are hoping that will also help.

Ameen Pirani But as of now you are seeing pressure on the rural cash flows because of the bad monsoon this year at least?

L. Ramkumar In pockets, yes, Eastern region, for example, not such a good growth as we normally have.

Moderator Thank you very much. Our next question is from Kashyap Pujara of Axis Capital, please go ahead.

Kashyap Pujara Just to extend this Cycle debate further, basically if I look at Q3 last time we did close to 350 crore of revenue from the Cycle division and the volume was close to 1.2 million approximately, if I remember right. And if I remember right I think there was this election during that time because of which margins at that point in time many which were came in lower at 4.6%, normally we were at 6% - 6.5% margins, but during the specific third quarter last time because of the institutional sales to Tamil Nadu government the margins was anyway which were lower because of standard Cycles contributing lesser on a per cycle basis. Now, this time around at least that is not there. So to that extent at least margin on a normalized basis should have been higher rather than 4.6% because while the volume is not comparable even the margin is not comparable. So the average margin I can understand 1.5% is a miss because of the write-off done at China. How much has power played a spoilsport in terms of percentage term if I were to quantify in the Cycles side of the business? And also that if my 1.2 million was the total volume and implying close to Rs.3,000-odd realization, if I assume the same realization I am getting close to 0.9 million, close to 20% drop in volume. Wanted to understand your take on the margins and on the power and volume front if you can quantify?

L. Ramkumar Traditionally, if you see even in the past third quarter may be the lowest in terms of the margins for Bicycles business, because third quarter has got more standards, the depreciation really picks up after that and goes on. So 1.7% we have till that becomes 3.2. The real issue here is that, yes, the standards have been less and institution has been less but the power cost what you have not been able to pass on has been I think in the order of something like Rs.15 a cycle, which we are trying to correct sometime during this quarter or first quarter of next year depending on the market situation, that will come to around 0.5%.

Kashyap Pujara So going forward to understand what is recurring and what is one-off, so whatever is the one-off that has been taken like say for example, you mentioned the **(Inaudible) 23.25** related one-off. Now implying that we also force lot of these BSA motor related stuff which is electric scooters and eBikes and all. So even that would have been impacted and have we taken any inventory write-down on those during this quarter? So wanted to just understand the full magnitude of one-offs in this quarter in terms of margins.

L. Ramkumar Not really but we have had some losses on account of BSA Motors reported here which is not there last year. Last year was may be a breakeven. While we have put the 3.8 crores as one-time, there would have been another 60 lakhs–70 lakhs due to BSA Motors due to operations, the sales are not being adequate to cover the fixed cost and all that. So that is also a swing compared to last year when we made a marginal profit during the quarter for BSA Motors, which is included in the Bicycles segments.

Kashyap Pujara So having said that from the fourth quarter onwards there could be normalized margins these **(Inaudible)** one-offs are no longer there, and power yet continues to play a problem, am I right or are we close to resolving that?

L. Ramkumar You cannot change as of now, what applies to others the only thing maybe the power intensity of Bicycles is slightly less compared to the few products or something but the problem for TI

Cycles, the vendors are affected by the power situation all over the country. So wherever there has been power cost, increase of diesel genset, the vendors have asked for the price increase which we have to give selectively. That is how the price increase is also coming in.

Kashyap Pujara But at the same time we are not increasing the realizations that is not happening…?

L. Ramkumar We are waiting for the first opportune moment to increase this.

Kashyap Pujara So basically coming back to normalized margins, we have always maintained that sustainable margin in a Cycle division could be in the range of 6%. So where do you think the margins would be in the near-term in that sense, assuming that power might yet pose some amount of a problem?

L. Ramkumar The goal is to reach what you are saying and I think we are as I said little earlier in the process of making our plans for the next year, we will have to take into account all these factors, there are some minus because of power, there will be some plus due to our new products, then there may be some plus due to our indigenization program, which can also help us with these deliveries and the margins. So we are definitely working towards restoring the margins which has really gone down during this quarter.

Kashyap Pujara And just last on the Cycles side, the question here is that basically the import side of the business which was typically from China which we were importing and that import duty getting levied. So essentially we resorted to indigenization. I think the competitor Hero is yet importing it, but importing through the Sri Lanka route if my understanding on the ground level is correct, whereas we are looking at indigenizing it. So vendors facing any glitches for ramping up production or we are confident of making up further whatever we were importing from China, we are confident of making up from the vendors?

L. Ramkumar There are still some things like Shimano Gear Sets and all that which cannot be done by anybody in India. So if you really want to give those kinds of parts in the Bicycles everybody has to import, because that's a real brand name which goes is known better than the Bicycles brand names. So that is still as I said the high-end Bicycles are still not a significant portion though they are growing. We were importing a large part of our regular bikes also which we have stopped importing. This is what I mentioned. Some products in the kids range we were importing. The fully-built Bicycles without gears and all that which we have stopped now.

Moderator Our next question is from Akhil Jain of Aditya Birla, please go ahead.

Akhil Jain I was hoping if you could share the volume numbers for each of the products, precision tubes, strips, auto chains, industrial chains, volume numbers or probably the volume growth numbers year-on-year?

L. Ramkumar In the case of doorframes numbers wise we were down by 9%. Precision tubes same 9%. Bicycles I think we already talked about.

Akhil Jain 9% down?

L. Ramkumar Yes.

Akhil Jain Okay and strips?

L. Ramkumar We do not give this specifically. It's part of Engineering. In the case of auto chains in dealer market we grew by 29%, in the OEM market we grew by 1% and industrial chains there has been a drop.

Akhil Jain Could I get some idea of what the quantum drop was, I mean in percentage terms?

L. Ramkumar 15%.

Akhil Jain And railway products were how much?

L. Ramkumar Railway products some growth marginally.

Akhil Jain And I didn't get the Cycles number, like the growth number overall?

L. Ramkumar In the Cycles trade it dropped by 18%.

Akhil Jain But it really mean non-institutional you are saying?

L. Ramkumar Non-institutional, overall we dropped by 29%.

Akhil Jain Another thing I wanted to ask was like you talked about power cuts impacting your business across your Engineering, Metal Formed and Cycles business. I was wondering your production dropped while demand was there or is a function of both drop in production and demand?

L. Ramkumar To some extent, I would not say a significant portion but definitely it did affect because on a particular day you have to deliver, you don't deliver, you lose the sale, because that is impact in terms of upsetting the rhythm, but the main cost is cost of running a generator set. As far as the government supply power is Rs.5, genset can go up to Rs.16 per unit.

Akhil Jain So, the volume degrowth that has happened in Engineering and all these, it's mostly due to a slowdown in the automobile sector?

L. Ramkumar Exactly. We have maintained the market share.

Moderator Thank you very much. Our next question is from Chellappa S of Pari Washington, please go ahead.

Chellappa S I just want to know how is Shanthi Gears doing compared to expectations and how is the integration going on, could you give us an update on that?

L. Ramkumar A few things we have done as far as Shanthi Gears is concerned. One is we have reconstituted the board on taking over. We have also now put in today's senior management team which is the CEO, the CFO, the head of sales and marketing, head of purchasing and then we have also started some very basic work on the shop floor in terms of daily reviews, rejection, reduction, safety, etc., A lot of ground level involvement in terms of various projects. We have also rationalized the manpower, just done it a week back in terms of pruning some numbers to keeping in mind the expected demand in the next one or two years, which also meant that we have now looked at the skill levels and taking the right people in the right kind of job, which we believe is definitely going to give us a lot of benefit going forward. Other thing we have done is because Shanthi Gears in between shunt their business, many customers are not very sure about this time about what Shanthi Gears will do in future. So we have met at least some 50 top OEMs at a senior level, at the board level and things like that. Most of them are very keen to come back. They were not sure whether we will supply or we are shrinking our business. I would say these are all the good news and going forward I think all this should result in terms of turnover growth and then flowing down into profitability. So, this year has been a lot of cleanup work, lot of consolidation, lot of streamlining that's what we are in, and I am glad to say while it would not be reflected in any numbers, this is going quite well and the morale of the team is pretty good.

Moderator Thank you very much. Our next question is from Vikas Garg of L&T Mutual Fund, please go ahead.

Vikas Garg My question is more on the liability side. Can you please give me the number of total debt which would be there on the books of the company on standalone basis?

L. Ramkumar The total debt has slightly come down during the quarter from end of Q2 2012–2013 and the debt-equity ratio has also marginally improved as a result from 1.16 to 1.1 total debt-equity, a long-term from 0.85 to 0.83.

Vikas Garg Given your stated intention of making some CAPEX plans of at least 160–170-odd crores in the next quarter and also some CAPEX plans which would be lined up in financial year '14, and also considering that your NBFC subsidiary is looking for its money for funding its own balance sheet growth. So sir can you please indicate two things? One is that financial year '14 broadly how much CAPEX plans could be underway? Secondly, would you be participating in the QIP or the further equity easing of Chola? And thirdly sir, what are the plans on basically these all things?

L. Ramkumar As far as TI is concerned we only said we already spent 160 crores, we are likely to end up the year at 230 crores to 250 crores, so the last quarter is only 60 to 70 crores. We have reasonably good headroom in the debt-equity ratio as well as some cash generation. One of the reasons why our debt also came down is because of a fairly tight control on working capital, which I hope we will be able to exercise going forward, market condition is notwithstanding. As far as the QIP of Cholamandalam Investment and Finance is concerned, we are not going to participate. And as you know in the last few times they have raised funds, TI has not participated, and they have got funds from other investors. And Insurance we believe has reached reasonably large size and also it has become quite profitable. I think as we see in the next year or so of their requirement can be met by their own internal generation. TI's requirement, the big CAPEX will come in terms of the expansion of the existing plants for tubes or chains, etc., that would be done only when we are able to see a much higher level of volume. So part of the funding will also take into account higher generation of cash that will happen, but many of our projects, the lead time is maximum 9 to 12 months. After that we will be able to ramp up production and get close to the full volume. So I think given our current debt-equity ratio, not a very ambitious CAPEX plan as we see it. As I earlier told few of the other people, we will be able to take a call on this after we assess the situation by end of March. There we will be finalizing our plans for next year.

Moderator Thank you. Our next question is from Vishal Saraf of SBI Mutual Fund, please go ahead.

Vishal Saraf Sir, we understand this quarter was bad and we had some high cost and volumes were also under pressure like you mentioned across segments. How do you see the outlook going ahead both in terms of volumes and margins? When do you think we can bounce back like in this quarter we have been able to take on some of the price hikes?

L. Ramkumar There are two businesses we have; B2C and B2B. So two-thirds is really B2B in our case largely all the Engineering, Metal Forming businesses. So the fortunes are fairly linked to the fortunes of Auto industry. As you know we are a significant player in all the products we supply. We continue to have a leadership position and we are taking all efforts not to be complacent to maintain the leadership position in terms of new products or deliveries, etc., On the B2C is a Bicycle business, where definitely already there have been enough initiatives, which will bear fruit, I talked about retail expansion, new product developments, ground level activities, improving distribution in some of our weaker markets. With this we will be looking at growth in the coming years even with the overall growth of the industry is a little lower than expected.

Vishal Saraf So, sir just to understand say the Bicycles business where you said even in the Trade segment we had this 18% drop. Given that B2C business would not see significant swings in volume growth trends, do you think for the next 6 to 12 months we will see overall Trade segment in Bicycles report negative growth?

L. Ramkumar It's a very difficult question, but I do take it that we also not have a drop of 18% like this in the last several quarters, but you must know that in the last four years we have grown much faster than the market. So somewhere the adjustment is taking place in terms of stocks and other things. I would be more optimistic about the future than what happened in Q3.

Vishal Saraf So, that is what sir is surprising given that we have been growing at such a fast pace in the previous quarters, so is there some inventory correction we have done in Bicycles or this demand I mean say 18% sudden drop looks a little surprising, so just wanted to understand more of the reasons behind that?

L. Ramkumar The reason I told you, the main reason is the standard Bicycles, which is a large volume but not necessarily large high margins, there has been a slowdown and all the players are affected fairly due to this, this is due to the rural demand and people not buying as many Bicycles for the commuting segment as expected. This is where we have been hit maximum in the Bicycles volumes.

Vishal Saraf So, do you think this segment can turn around suddenly say next quarter or next six months?

L. Ramkumar The real thing to look at is, assume that segment will not grow substantially because it has been dropping over the last few years, but make it up with higher valued added sales in other segments which is growing or which is willing to accept new products that's the way we will be looking at.

Vishal Saraf And in the OEM market the margins there are driven when we are able to take price hike from customers. So further significant increase in power cost which has led to this margin decline, are we in negotiations with customers and have we already been able to get….?

L. Ramkumar Yes, we don't give up so easily, we have been partly successful in the earlier part, because this whole thing started from April of 2012, and the major power cut in Tamil Nadu. So we have been negotiating with major customers, some of them have been reasonable, we have got part of the increase, wherever it is significant like now the diesel price increased, I think it will be significant increase for us because we buy as a bulk consumer using for gensets and all that. So this we are definitely going to take up. May be part of it the problem with OEMs is they are asking for cost reduction now, because they are not competitive whatever, whatever. So this goes on as you may know and we hope that some portion will be recovered but not fully.

Vishal Saraf So, when you are saying not fully in the sense, do we see certainly margins to be lower than what we have seen in the last two, three years?

L. Ramkumar The margins will also go up if the volumes go up. There is an impact on the volume also. It's not purely only per unit cost. So we are only hoping that we will be able to maintain or improve the volumes on the previous quarter same year even if we do not grow substantially, so that should help us.

Vishal Saraf And sir for Shanthi Gears, like you mentioned we have been working with them on ground and we have been interacting with OEMs. So when do you see the benefit of them starting to translate in terms of better top line?

L. Ramkumar It will come very soon I hope.

Vishal Saraf In terms of margins also you mentioned the works we have been doing with Shanthi Gears does not reflect in numbers in this quarter. So the margin decline is just on account of lower volumes and overall cost increase for them or is it because of write-offs you would have taken in this quarter?

L. Ramkumar No write-offs, some increases we had for people and all that increase, increment, but I think significantly its volume driven.

Moderator Thank you. Our next question is from K G Lakshminarayanan of Catamaran, please go ahead.

K G Lakshminarayanan A couple of questions, first question on your debt standalone. On absolute number what is the standalone debt as on December 2012 and what was it on September 2012?

L. Ramkumar It's 1300 crores plus.

K G Lakshminarayanan And the other thing on the French subsidiary stake, what is the turnover which we achieved and what is the PBT?

L. Ramkumar PAT was around 1.5 crores, PBT was 2 crores or something; turnover is around in rupee value is 231 crores.

K G Lakshminarayanan You had actually given quarterly basis. So if you can just give on a nine months basis the volume for Doorframes, Wagons, Chains, Tubes, Strips…?

L. Ramkumar Doorframes drop was 8%, Wagons were slight increase in the nine months, then Chains after sales market we grew by 32% and in the OEM market we dropped by 6%.

K G Lakshminarayanan And in terms of Tubes and Strips, in terms of absolute terms what has been the drop or increase?

L. Ramkumar Tubes and Strips the drop is 2% year-to-date.

K G Lakshminarayanan And what is the utilization we are operating the Engineering division and the Doorframes division that will be helpful?

L. Ramkumar Engineering is 90% plus. Doorframe is linked to individual models. So we are fully geared for meeting the full requirements of OEMs whatever they want. So whenever we set up a doorframe line we set up based on what is the model forecast they give like Tata Indica or Hyundai i10 or whatever you say. And as far as the other Metal Formed products is concerned we have sufficient capacity actually, chains and all that.

K G Lakshminarayanan And on Doorframes the supply right now to which vehicle sir?

L. Ramkumar Hyundai, Tata, General Motors, Maruti.

K G Lakshminarayanan Which model sir, Tata Indica and then Hyundai i10?

L. Ramkumar There are doorframes and door divisional channels also. Like this we supply to many models, we supply something for Nissan, for Toyota, the value will be less than the doorframe because channel is lesser value and the Nissan also we supply something but main is i10, i20, Indica, Nano, Maruti 800, Omni, General Motors Tavera these are the models.

K G Lakshminarayanan The formed doors right?

L. Ramkumar Yes, correct.

K G Lakshminarayanan And we were supplying to the other Elantra, Verna or some other model right?

L. Ramkumar Verna we do but qualities are very low, not for the new Verna, the old Verna we used to supply.

K G Lakshminarayanan And did we get any new orders because for the next version of Santro or the next version of i10 are we…?

L. Ramkumar We are always working on some new programs of all these people and we are hopeful we will be able to clinch some of the big ones.

K G Lakshminarayanan And one last question, what is the car OEM uptick or what are you seeing in the market?

L. Ramkumar Maybe flat I think. Individual models may do well but overall quantities I am not sure.

K G Lakshminarayanan Sir, and you mentioned that you are taking some steps on the power cost increase which is almost like Rs.16 or Rs.17 you pay and in two states where the deficiency is very high. What are the various things which you can do in addition to passing the cost directly to the customers, is there any other options you have sir?

L. Ramkumar One option, in the case of Andhra they were not allowing purchase of power from outside which we do in Tamil Nadu for example. So purchase of power from private power companies is cheaper than running a genset though it may be costlier than the electricity board power. So for our Chain plant in Andhra we will be commencing that from now on which will reduce the cost. Then we have also looked at aggressively energy conservation measures, how to maximize the number of shifts of heat treatment and continuous process. Supposing, you had a load for say 90%, you run it only for 90% of the day, don't run everyday 90%, so that will save some power. Then also wherever possible we are trying to replace our refurbished generator in order to make it more efficient or we have several generators we will buy larger generators it will be more efficient in terms of kilowatt hour. So these are all the things which we are trying to do.

Moderator Thank you. Our next question is from Dishant Tandon of B&K Securities, please go ahead.

Dishant Tandon Employee expense has come down as compared to September quarter?

L. Ramkumar We do have a portion of flexible manpower in all the plants. So, wherever the volumes are down we reduce the intake of people. This has resulted in the lower employee cost.

Dishant Tandon And one more thing sir, our trade volumes have dropped 18% in Cycle segment. Is it like some other unorganized player has come or what because you said all of the players are affected?

L. Ramkumar We believe all the players are affected because of little slowdown in the market and we don't think unorganized players have taken it to this extent, there are unorganized players but they keep coming and going, it just made such a big impact.

Dishant Tandon Okay and sir how much was the export in Chain segment this quarter?

L. Ramkumar In Chain segment, there has been some drop in the volume but value wise I think a marginal drop of 5%.

Moderator Thank you very much. Our next question is from Mr. Kashyap Pujara of Axis Capital, please go ahead.

Kashyap Pujara Just a follow up question on a couple of businesses. So, on the Cycle side finally to ask you what was the mix in terms of percentage of standard versus special in this quarter, the breakup? Second was that if you look at the Tubes division Engineering products, if we look at the margins that have gone down, and if you attribute 9% dip in volumes on a Y-o-Y basis, then it implies that basically our EBITs per tonne probably have moved from say on a blended basis from close to 5,800 to 4,000 broadly. So wanted to understand that this is purely attributable to power as I understand, right?

L. Ramkumar Because volume also has got an impact on the margin. With additional cost you can generate volume. So, the standard came down from 51% to 49% in the Trade, you wanted to know compared to the previous quarters.

Kashyap Pujara So on a normalized basis for the full, we generally have close to 65% specials and 30%-35% standard on overall number, this quarter it was primarily 50-50% is what….?

L. Ramkumar Because the percentage you are saying I don't know whether you included institutional sales or how you do this.

Kashyap Pujara Yes, I included institutional sales also, right.

L. Ramkumar I told you without institutional sales. Institutional sales are a little bit different because standards in last quarter was more.

Kashyap Pujara Normally the margins if we normalize the one-offs and the power related issues then say for example the margins come to at 4%, and if we have a proper mix of specials on a normalized basis for the full year then the margins improve further from here?

L. Ramkumar Correct.

Kashyap Pujara And also just to talk on the Insurance business, what is the kind of write-off we took in this quarter, motor pool loss? I think we have taken total 50 crores for nine months.

L. Ramkumar 17 crores.

Kashyap Pujara So essentially that implies if I adjust this, my PBT is already at 40 crore number plus. So we can sustain this run rate on a quarterly basis 40 crores – 45 crores PBT on the Insurance side?

L. Ramkumar Yes, I believe so.

Moderator Thank you sir. Our next question is from Ameen Pirani of Deutsche Bank, please go ahead.

Ameen Pirani Just want to come back to the Bicycles demand, you mentioned that on the standard commuter segment, the segment has been slowing for the last few years and probably some of it has come, if I am correct, because of upgrading to may be motorcycles. So first of all I just wanted to ask you, is that a correct assessment or you think that segment has been slowing down over the last few years because of other reasons?

L. Ramkumar Standard segment has been slowing down, say a period of last two years, five years, and 10 years. The proportion of standard is totally steadily coming down.

Ameen Pirani But like I said that that's happening because of an upgrading or-?

L. Ramkumar No, there are two thing, what is happening is in the Kids segment, okay so if you see may be child up to the age of 13 or something, today they are buying three or four cycles during the period. Earlier, one cycle was bought say 25 years back given to brother and all this kind of thing. Propensity of these people to buy is increasing. The is no connection with the standard Bicycles. And standard Bicycles consumers probably a lot of them are commuting if they are well off, probably their aspiration is to get into a motorized two wheeler. So they may not get into a kids Bicycle or a fancy. The fancy Bicycle buyer is more of an urban type fellow with more lifestyle conscious. Standard Bicycles fellow is more functional, rational. So these are fairly different segments of market.

Ameen Pirani Going forward if we are seeing a pressure on like rural cash flows because of weak agriculture, do you think that obviously the need for commuting will be there, so do you think that there could be some downgrading from motorized two-wheelers to cycle standard, because standard Bicycles will still be the largest segment even though they are slowing down, right?

L. Ramkumar I am not sure. Supposing we all bought a car, there we see one quarter of bad time do you think we will take up a two-wheeler so quickly? I don't know. Psychology wise I think once you are graduated you rather see how do you earn more to maintain that. We are only saying guys who have a two-wheeler, car and a luxury car should buy a Bicycles because they want to do for fitness, etc., that segment which will grow, as economy double up this is what will happen, like it has happened in the western part of the world, nobody will say, now I have to resort to the cycles back.

Ameen Pirani But like you mentioned that segment would still be small, and the standard segment even though it is not growing would still be your largest segment, right?

L. Ramkumar In the market, yes, it will continue to be 40% - 43% is something you cannot ignore.

Ameen Pirani But you don't see that segment growing in the medium term?

L. Ramkumar It has not been growing. I don't know unless there is some technical or innovation kind of a thing or technical revolution. Basically a lifestyle issue like people will graduate from two-wheelers to cars, from small cars to luxury cars, medium size. So that's a kind of transition which is taking place.

Moderator Our next question is from K G Lakshminarayanan of Catamaran, please go ahead.

K G Lakshminarayanan Two questions, one, you had actually mentioned the power cost cycle for 15 or 50?

L. Ramkumar Rs.15 impact per cycle.

K G Lakshminarayanan And is it easy to pass it on to the customer sir because that's on an overall 3000 realization seems to be low?

L. Ramkumar In a way it is easy, in a way it is difficult. It is easy in the sense we can just announce the price increase tomorrow, to start like we have to negotiate with somebody. It is difficult because the competition is also watching and we have to see at what price they are selling and how will it impact the dealers, their motivation, etc., so, one has to balance out. When the market is good, I think it becomes easier to pass on this.

K G Lakshminarayanan Sir the other question on Chains you mentioned the aftermarket went up by 32% when the OEM dropped by 6%. What is the mix of aftermarket and OEM for you and then on a blended basis what is-?

L. Ramkumar There are two kind of aftermarket. The OEMs themselves buy as OE spares, Hero Honda or Bajaj would like to call this as their own kits where we give chains, some of the chains we give them go into the motorcycle directly, and some of the chains go for the spares. Besides we have our own dealers where we directly sell in the diamond brand name. Definitely, the market which is being catered to by the OEMs is much larger than what we are giving directly in terms of spares to the various dealers. It is still not a major portion but it is growing.

K G Lakshminarayanan So on a total number, right, which is essentially if you club either OEM direct or OEM spares and the third is your aftermarket. So totally what has been the volume for the last nine months and how it has compared with?

L. Ramkumar If you don't mind can we refrain from giving such numbers. You can take it is smaller than the OEM market-

K G Lakshminarayanan Just one other question on the French subsidiary sir because I think we purchased the French subsidiary 77% in 2009 and we are in 2013 now. Just how does it actually kind of fit in your overall strategic goal, and how are we trending on where we want to go because I think when I look at the last three years the PBT has been remained more flattish?

L. Ramkumar I think 2011 was good, 2012 has been under pressure and 2010 was not so good because soon after the recession year of 2009. What are we planning to do I think is the same as what we stated when we wanted to take over the company. One is to get some technology, we have already got some very specific technology, equipment, installed in our plant here in India to give better heat treatment of parts for higher ____1:02:44 life etc, we have already submitted samples of both the industrial and the automotive Chains to various OEMs. It has met with very good response. We need to market it more aggressively to make a differentiation in the marketplace. Second, we are also taking up certain kinds of change which we do not make. They are helping us, their design departments which will help import substitution and make us more competitive. Third, there are certain types of change they don't make but with their brand names they will be able to buy from us and then sell it in different markets. So all these three programs are underway. Already we have seen in one sense their sales, their purchase from us has gone up significantly during the last two years in terms of our exports that is the first step. Secondly, we have got these equipments to do special heat treatment. Going forward you will see that we will be able to increase the turnover of both the companies combined either here or there vis-à-vis new markets and products.

Moderator Thank you very much. As there are no further questions from the participants I would now like to hand over the floor back to Mr. Kashyap Pujara for closing comments.

Kashyap Pujara Thank you everybody for the call and thanks to Mr. Ramkumar and Mr. Rajagopal for taking the time out to do this call with us. Thanks a lot sir.

L. Ramkumar I must thank all of you for the interest and all the questions. Thank you very much.

Moderator Thank you. Ladies and gentlemen on behalf of Axis Capital Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.