



“Tube Investments of Industries Limited Q3FY16- Results Conference Call”

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MODERATOR: MR. KASHYAP PUJARA – AXIS CAPITAL LIMITED



Moderator: Good Day, Ladies and Gentlemen and Welcome to the Tube Investments Q3FY16 Results Conference Call hosted by Axis Capital Limited. As a reminder, all participant lines will be in a listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kashyap Pujara from Axis Capital. Thank you and over to you, sir.

Kashyap Pujara: Good Morning, Everybody. It is a great pleasure to have with us the management of Tube Investments. From the management side, we are being represented by Mr. Ramkumar who is the Managing Director and Mr. Arjun who is the CFO. Without taking too much time, I now hand over the floor to Mr. Ramkumar. Over to you, sir.

L. Ramkumar: Thank you, Kashyap. A Very Good Morning to all of you who have taken time out to participate in this conference. I will first take you through the performance of the standalone company and then we will move on to the consolidated results. In the standalone company, the overall turnover for the Q3 came down by 3.3% over the corresponding period last year. We must remember there has been a lot of deflationary impact on this with prices of various products we do like Tubes, Chains and other products, we had to reduce the price to the end consumer. In the case of some products we have had a marginal drop in volume, in some cases we have had no drop in volume, actual increase in volume but overall turnover has come down.

Coming to the profitability ratios of TII as a whole, we should look at line #7 which we have published, profit after finance cost but before exceptional items, because last year we had an exceptional item of Voluntary Retirement Scheme Rs.11.73 crores, so I would like to look at the profit before that, so at that level we have improved previous year third quarter was Rs.10.86 crores, this year we did Rs.19.44 crores, as a result we also see the percentage to turnover being higher.

Now, we also go to the Individual Divisions in terms of the Revenue: Bicycles revenue came down by 10%. We have had very sluggish growth in the market; it has affected the market in terms of growth but to some extent beefed up by the increase in institutional sale. Apart from Tamil Nadu and Karnataka orders, this year we also had a major order from West Bengal government, which we are in the process of executing now. This to some extent shows up the total volumes during the quarter. The overall volume hence in Bicycles is higher by 2.5% including the institution but at the trade level it is lower than last year. The profit was definitely affected because of the volume and the mix during the quarter.

Getting to Engineering: Engineering has got two portions, which is the regular business which largely caters to auto, the second one is the new project, the Large Diameter project which we



talked about where we invested Rs.250 crores. I must say that given the fluctuations in the Automotive market, while the Passenger Car market has grown, Two Wheelers, Scooters have grown, but Motorcycles have come down, Motorcycles use more of our Tubes, we have held on and I think we have been making good progress in terms of maintaining and slightly improving our market share in this portion of the business. However, the Larger Diameter Tubing which is to the hydraulic cylinder obligations, we have taken some time to stabilize. We have made some progress during the third quarter. I must say that almost all the technical issues are behind us. We have had approvals from all the major customers for the initial lots which we supply. This momentum will pick up from this quarter onwards to build up the volumes the year 2016-17. Here again if you see despite this not fully coming to fruition as we expected, there has been an improvement in PBIT over the previous year.

Coming to Metal Form Products: We have had very good quarter and a year so far for Chains; for Chains overall I think in quantity terms, we have grown 4-5% across various segments, market share continues to be very dominant, continuously improving it with OEMs, whereas in the case of the Doorframes, the fortunes are linked with the way the products in which our Doorframes are used like some of the car makers, their optic was not good, so we could not supply. The Railways Wagon business continues to have an issue in terms of orders not being much, prices being lower, but we have been doing reasonably good with the improvement in Coach business, the number of Coaches we are supply to ICF is definitely going up and we see a good traction in this particular line of business. That is by and large about the various parts of Tube Investments of India standalone.

Coming to Consolidated: The first word of caution, the consolidated figures as published here are not in a strict sense figures to be compared as it is published because the previous year we had the finance company as a subsidiary of Tube Investments, whereas there ceases to be a subsidiary sometime in September 2015, the revenues are not consolidated but only the profit is consolidated to the extent of our shareholding.

So I would really take you through only two major companies in terms of subsidiaries – one is Insurance. Insurance did have a growth in terms of gross written premium by 52% as they have been maintaining the growth rate but their overall profits came down also affected due to the recent floods in Chennai. Tube Investments of India was affected to some extent by not being able to supply for a week various OEMs and others because people could not reach as some of our factories had floods, etc., during the quarter.

Shanti Gears: We had a marginal growth in revenues but our profits and profitability improved over the same quarter last year and we are continuing to maintain a healthy order book and looking at more avenues for value addition in terms of improving our sales in the quarters to come.



So overall this is the situation as far as Tube Investments and consolidated is concerned. I now leave it to you people to clarify anything or if you have any questions we will be very glad to answer.

Moderator: Thank you very much, sir. Ladies and Gentlemen, we will now begin the Question-and-Answer Session. The first question is from the line of Nilesh Gandhi from Destimoney Securities. Please go ahead.

Nilesh Gandhi: I have a question on Shanti Gears. Sir, if you could clarify the current order book and what was the order inflow in the quarter?

L. Ramkumar: Rs.74 crores is the pending order book as on beginning of January 2016, order booking during Q3 was Rs.40 crores.

Nilesh Gandhi: As we have seen this improvement in margins, is it due to the one-off orders which are high margin order or we expect that similar nature of orders going onwards?

L. Ramkumar: I will say progressively we are increasing the margins where if you take the orders itself. As you know, last year we said we took a lot of orders to keep the capacity going and maybe we still have one or two of that in the system, which we had to take in a very aggressive price the low margin, that is going out and the fresh orders which we have taken in the last six months take precedence you will see the margins being maintained or improved definitely.

Nilesh Gandhi: How about the capacity utilization – are we able to focus an increase there or it still remains at...?

L. Ramkumar: Capacity is a very difficult question to answer because there are pockets where we have a shortage in capacity. There are some very ordinary pockets; there are some very precision products, right. So where it comes to high precision products, our utilization is quite high. When it comes to standard products, we have a lot of capacity. But standard products is where our margins come under pressure because everybody is making gain. So we are judiciously mixing and matching the low contribution and high contribution items in order to balance the overall portfolio. If you ask me, the standard products, yes, we have a lot of capacity, whereas in the specialty products, capacity utilization is only increasing. It is one of the reasons for our margins also going up actually.

Nilesh Gandhi: In which are the customer's industries that you are witnessing good traction in this case?

L. Ramkumar: We are doing something for the defense sector, something we are doing for Special Gears for various private sector and also for Railways, etc., So these are the things which are giving us reasonably good margins, these are the additional turnover I would say compared to last year.



Moderator: Thank you. The next question is from the line of H R Gala from Panav Advisors. Please go ahead.

H R Gala: Can you give a broad assessment about the demand perspective from the different user segments? Still a large part of our turnover is coming from the Automotive segment. So what kind of trends do you see sir?

L. Ramkumar: In Automotive segment, we have found that Passenger Car segment is held on, it is way 6-7% growth is what we have seen this year. We believe this will continue because the number of new models are being introduced by all the players. The only risk is we do not know which one is going to do well. If everybody does well, probably the growth will be high. But it is not on competition. So if we are aligned with the right guys, our growth will also happen, especially in the case of Doorframes, it is very specific to the model, if it is Hyundai, we can supply only for that, we cannot use the same facility for supplying to say Maruti or something like that, but Tubes and other things are very generic, so we will definitely overall benefit there. In the case of Two Wheelers, our exposure or our opportunity is maximum with Motor Cycles

H R Gala: How much is our exposure?

L. Ramkumar: I will have to really calculate, but I can say that out of our total exposure to Auto it maybe 40%; our total of TII, one third is Bicycles. So the Scooters are growing very well and we do supply some parts like Chains and we have some other parts for Scooters, but our supplies are for Motorcycles will be much more as a company than for the Scooters. So to the extent of the Motorcycles tapering off or coming down, the growth is affected, but where we have aftermarket products like Chains, for example, we have a good traction, good growth there. Passenger Cars, yes, I think we will benefit. Commercial Vehicles also we supply something, in the case of Commercial Vehicles; we will benefit to the extent whatever we are supplying. So this is the scenario which we are seeing. As far as commercial vehicles increase is concerned, generally we have seen that they say it is a lead indicator of economic growth and all that. In all that, we think it is going to happen in terms of a very significant improvement in growth, the commercial vehicles will grow and hence we will also get some benefit out of it, we are also talking about a lot of encouragement of consumer spending and all that. So these all remain because last year around the same time we said the same thing, things are picking up, we will wait for the second half, now the second half is almost getting over, now again people have started saying, let us look at the second half of next year. Maybe it will happen in the first half itself only...

H R Gala: Recovery is taking pretty long.

L. Ramkumar: I think you guys know better because you meet more people than us. This is a broad outlook. Bicycles is very seasonal. I think first half is always better than the second half and there is a



season of first quarter which is relatively far better. What we are doing in order to beat the season continuously introduce new products across the year at various levels. The high end of the Premium Bicycles which sells for around Rs.14,000 and above, they are doing very well. That is still a small portion in the market while the growth is 20-25%, more people taking to cycling, but partly as I mentioned in my opening remarks, a lot of governments are coming out with orders for a normal standard bicycle, the volumes are significant I think it is helping all the bicycle companies to beef up their turnover and profit.

H R Gala: Do we get pricing in these government orders?

L. Ramkumar: Reasonable I would say, it is okay, not bad.

H R Gala: My one question pertain to this Large Diameter Pipe projects that we spend Rs.250 crores. What could be the potential maximum turnover we can achieve at the current prices?

L. Ramkumar: I think we mentioned in the past also, we can go up to Rs.300-350 crores for various product mix.

H R Gala: So looking to the current market scenario and thinking that the industrial thing is not picking up, when do you think we can reach optimum capacity level, say, for example, if you are going to operate at 75-80% of the installed capacity, it takes around 2-3-years' time from now?

L. Ramkumar: You can say 3-years we will reach 80-90%.

H R Gala: What kind of EBITDA margin we can have in Large Dia Pipe?

L. Ramkumar: It will be higher than the current business of Engineering.

H R Gala: Sir, any capital expenditure plans for this year and next year?

L. Ramkumar: We continue to do for modernization and various programs. Every business we are having some expansion of capacity for Chains, for Automotive Chains because Two Wheelers anyway are increasing in the aftermarket also and for Doorframes if we have a new model we have to invest on new tooling, etc., and we have already announced this project of Rajpura for TI Cycles, that will be mostly commissioned in the first quarter of next year.

H R Gala: That was about Rs.75 crores, right?

L. Ramkumar: Rs.100 crores I think, all the various land and other things. So, that will be a next significant investment for us.

H R Gala: How much total investment we will make in current year?



- L. Ramkumar:** Rs.180 crores.
- H R Gala:** Next year will be how much?
- L. Ramkumar:** Still working on, it could be in the same range.
- H R Gala:** How is the General Insurance business? Apart from of course the larger amount of claims that we will receive in the current year. But otherwise the Premium growth has been quite good.
- Arjun Ananth:** Insurance business has done well. The impact of the floods in Chennai was not very high because we have reinsured most of those claims. We still continue to maintain 7th position market share amongst the private players. Our total investment book is about Rs.3,700 crores. The combined ratio is about 106%. There has been a slight increase in some customer acquisition cost, but as we mentioned in the call last quarter it was because of the change in mix between government and private players. But otherwise, the business is doing pretty well unless we have some specific....
- H R Gala:** What kind of premium growth do we expect YoY?
- Arjun Ananth:** We do not give guidance on future numbers. Actual performance year-to-date is between 9% and 10%.
- Moderator:** Thank you. The next question is from the line of Kashyap Pujara from Axis Capital. Please go ahead.
- Kashyap Pujara:** Just a couple of questions; could you provide us with a breakup of volumes across the segment please? Cycles what is the total volume we did, Engineering and Metal Forms if you can just give us a sense of volumes?
- L. Ramkumar:** Cycles we did 8.7 lakhs and Tubes and Strips put together 55,000.
- Kashyap Pujara:** If we were to break up the Large Dia from this how much would that volume be?
- L. Ramkumar:** Large Dia Tubes will be around 10% of the total volume of Tubes.
- Kashyap Pujara:** On the Metal Forms products, what will be the total component of Chains in terms of revenue?
- L. Ramkumar:** We would refrain from giving such very classified information. Unless you want some trends we can always tell you.
- Kashyap Pujara:** On the Chains part, what I wanted to understand was the market share. You did mention at the beginning of the quarter market share ...?



- L. Ramkumar:** Market share in various chains we supply to OEMs is upward of (+45%).
- Kashyap Pujara:** Are you seeing some traction there or is the market share being more or less stable?
- L. Ramkumar:** It is not that we have a cake walk there, we have very good competition but in spite of tough competition we are able to marginally improve by few points is the point I am trying to make.
- Kashyap Pujara:** Just to go back on the overall, we used to say that structurally sizes can be a single digit 5-8% growth business with a stable margin of say sustainable margins of 5%, so obviously the other segments are more linked to how the automotive business performs over time coupled with a expansion that you have in the Large Dia business, so would you still continue to believe the same metric?
- L. Ramkumar:** Nothing much has happened I suppose in the quarter to have much more optimistic but we still think that we are optimistic about the future.
- Kashyap Pujara:** From the existing infrastructure that we have and whatever capital expansion that we are basically incurring over this year or maybe next year, could you at least articulate as to what is the kind of revenue potential that Tube Investments at standalone level can be eventually and what kind of EBITDA margins that can be sustainable once the situation normalizes and growth comes in where do you see the business over the next 2-3-years?
- L. Ramkumar:** What I wish to say is that there is always room for the capacity we can set assets and move up by 15% turnover in that sense. If push comes to shove we do not have lead time to invest and all which we have done in the past. That is one possibility. With EBITDA margins and all that are directly linked to the market conditions. If the market is bullish your pricing power is better. That is anybody's guess how much you can increase, but I can tell you that we are continuously having some plan of cost reduction efficiency, product mix and all this, assuming the market conditions may not change.
- Kashyap Pujara:** You have monetized Insurance business at a fantastic valuation and we will be receiving cash. So, basically for next year when we would be getting the cash and when we would look at deleveraging the standalone entity?
- L. Ramkumar:** This is just a work in progress. We are also wanting to get it once all these formalities were over, we will get it very soon. There is insurance regulatory authority, there is government and also we have to do some share purchase agreement which is going on. It will happen sooner than later. We are also talking to the various creditors of the company, people whom we have borrowed from as to how we can foreclose the loan or whatever it is. That will happen pretty soon. Probably this whole exercise in this particular sense should be complete by first quarter of next year, but progressively it will happen, it is not that we are going to wait till then. As the



money is coming, because of the procedure we are not able to give a date, but it will happen very soon.

Moderator: Thank you. The next question is from the line of Arvind Vijay Modi from Karvy. Please go ahead.

Arvind V Modi: My question is regarding the Cycle. So nearly 8.7 lakhs from a quarter, right. Could I get a breakup of Standard and Specialty segment in that maybe a percentage would do?

L. Ramkumar: Substantially it is all specials is what I would like to say at this point of time.

Arvind V Modi: More than 75%, that is what you are saying?

L. Ramkumar: I leave it to you because it is very too granular and then it becomes difficult for us to withhold for a competitive position itself. I hope you understand.

Arvind V Modi: What is the price realization reached in Standard and Specialty?

L. Ramkumar: It can vary from 10 to 35 to 40% depending on the model, smaller models will be less, if you add an accessory the difference goes up like Geared Bicycle is also special, and non-geared also is a special. It varies like that.

Moderator: Thank you. The next question is from the line of Nikhil who is an individual investor. Please go ahead.

Nikhil: You mentioned about some new orders from Railways and Defense sector. So could you please elaborate on that as to what exactly you are supplying to Defense and Railways?

L. Ramkumar: It will be very difficult to say. Railways is usual orders. It is for the various engine and other things which we have been supplying for some time. They have been ordering a little more. As far as defense I can only give a sector because many of these things we have been asked to be confidential. Unfortunately, I am not in a position to say more than that. I can only tell the investors we are definitely careful to see that we maintain a good margin.

Nikhil: Like are you supplying it to a manufacturer for Defense sector or you are supplying to Defense?

L. Ramkumar: There are several things, it could be directly to Defense, it could be a supplier or it could be to a public sector undertaking, final destination is it goes into defense sector.

Nikhil: All these businesses by the tender process or how does that happen?

L. Ramkumar: They are all by tender.



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- Nikhil:** This Tube Investments showed stake in Chola Insurance in December. So the General Insurance business is doing extremely well. So going forward, it will require some additional capital. So do you foresee additional investments in the General Insurance business over next two to three years?
- L. Ramkumar:** Not much because we believe now they have adequate income to manage the business in terms of their growth. We are not sourcing any major investment from outside.
- Moderator:** Thank you. As there are no further questions from the participants, I now hand the conference over to the management for their closing comments.
- L. Ramkumar:** I thank all of you for your participation.
- Moderator:** Thank you. Ladies and Gentlemen, that does conclude today's conference. Thank you for joining us and you may now disconnect your lines.