



“Tube Investments Q3 FY18 Earning Conference Call”

February 16, 2018



MANAGEMENT: **MR. L. RAMKUMAR -- MANAGING DIRECTOR, TUBE INVESTMENTS OF INDIA LIMITED**
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MODERATOR: **MR. KASHYAP PUJARA-AXIS CAPITAL**



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- Moderator:** Ladies and Gentlemen, Good Day and Welcome to Tube Investments Q3 FY18 Earnings Conference Call hosted by Axis Capital Limited. As a remainder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal the operator by pressing “*” then “0” on your touchtone telephone. Please note that this conference is being record. I now hand the conference over to Mr. Kashyap Pujara from Axis Capital. Thank you and over to you sir.
- Kashyap Pujara:** Good Morning everyone and thank you so much for standing by. It is a great pleasure to have with us the management of Tube Investments Limited. From the Management side we are represented by Mr. Ramkumar who is our Managing Director and Mr. Mahendra Kumar who is our CFO. Without taking much time I hand over the phone to Mr. Ramkumar.
- L. Ramkumar:** Thank you for taking time off to join us back in this conference and now we are open to questions we can start.
- Moderator:** Thank you very much. We will now begin with the question and answer session. The first question is from the line of Ashuman Singh, who is an Individual Investor. Please go ahead.
- Ashuman Singh:** So if you could give us the volume number in Cycles and Engineering division for Q3 and last year?
- L. Ramkumar:** You want the total number of Cycles. We can say last year same quarter we did 9 lakhs of Bicycle sales and this time we have done 9.5 lakhs.
- Ashuman Singh:** Any reason for loss in the Cycles division?
- L. Ramkumar:** The loss being see there has been a drop in the trade volumes in the Bicycle division and that is why the, etc., and this is the industry wide phenomenon, it is not only for us in that sense.
- Ashuman Singh:** My second questions is what are your plans on Shanthi Gears going forward and any plans of merging it with the TI Group?
- L. Ramkumar:** No, there is nothing at the moment. As such it will operate as an independent company listed as it is today, and we are looking at ways of growing the business as it is grown in the last two, three years steadily both in terms of top line and bottom line.
- Ashuman Singh:** My last question in large diameter tube mills what was the volume and capacity utilization level in Q3 and if you could throw any colors on the profitability during the quarters?



- L. Ramkumar:** The large diameter tubing every quarter we are doing better than the previous quarters in terms of the tonnage of the Tubes we do, there has been more and more capacity utilization. We have reached a fairly good level of capacity utilization in Q3 I should think may be around 75% to 80% and compared to last year we have grown by 78% to 80% in terms of volumes. In terms of profitability we had a breakeven at EBITDA level in the previous year end and we expect a PBIT breakeven soon.
- Moderator:** The next question is from the line of Jeehan Karanjia who is an Individual Investors. Please go ahead.
- Jeehan Karanjia:** I just wanted to ask if it is reasonable to assume a 5% margin for the Cycles segment over the medium-term is that likely?
- L. Ramkumar:** Yes, I think so. You are talking about an EBITDA margin?
- Jeehan Karanjia:** Yes.
- L. Ramkumar:** See that is what we are working at going forward. There has been a sudden serious drop in the trade volumes, so we are trying to right size the business in terms of facilities, cost to take care of the lower volume so that the profitability improves. Simultaneously, we are also looking at some of the segments to grow further so 2018-2019 will be a year of consolidation and I think we can look at what you are saying from the year 2019-2020 onwards.
- Jeehan Karanjia:** My second question is your outlook for the exports across segments?
- L. Ramkumar:** As far as Tubes are concerned it continuous to be very good. We are doing both in the Eastern and the Western part of the world, we have had good growth in terms of Tubes during the quarter and year-to-date this will continue because we are getting approved by newer customers for our large diameter hydraulic cylinder tubing, for our automotive tubing as well as automotive tubing for cars as well as two-wheeler. In case of Diamond Chain, chain export continuous to be very strong. We grew by 11% during the quarter up to the nine months end we grew by 7%, Metal Forming the other part of the business is not much exports. Bicycles there has been some growth in the turnover, but I think in the long run looking at the market conditions and also the way we want to focus on the domestic market to improve its profitability and the market share substantially, we may rethink on whether we need to be exporting such a small value in terms of continuing this business may come out of it for some time is the idea.
- Jeehan Karanjia:** My last question is are you seeing a pickup in industrial activity overall and will that meant in your view lead to of course higher demand for tubing in the future?



- L. Ramkumar:** Automotive industry as you know has done very well and has been doing pretty well and that is the reason for our growth in non-Cycles portion of the business. Cars, commercial vehicles two wheelers. As far as non-automotive is concerned we have not seen a major pickup excepting in some parts in mining, some off-load vehicles, etc., which you will benefit Shanthi Gears and people like that.
- Moderator:** The next question is from the line of Vipul Shah from Sumangal Investment. Please go ahead.
- Vipul Shah:** Can you breakdown the Bicycle volumes into Basic Cycles, Special Cycles and Premium Cycles?
- L. Ramkumar:** I can only tell you what we sold to the government and we sold in the market. Nearly we can say 5.4 lakhs we sold in the market and the balance 4-odd lakhs is in the government sector and I can only tell you over a period of time proportions of specials is higher because standard is coming down.
- Vipul Shah:** Can you comment on margin difference between Speciality and this Basic Bicycles I mean what should be the margin difference between the two?
- L. Ramkumar:** I can only say the margin for the trade will be far better. For the competitive reason I am not able to give you an exact number.
- Vipul Shah:** Okay because Cycles segment is the only weak link at present, all other divisions are doing relatively much better that is why I was asking.
- Moderator:** The next question is from the line of Bhavin Shah from Kotak Investment Advisors. Please go ahead.
- Bhavin Shah:** Could you give us some sense on the CAPEX plans across the different verticals for the next two years?
- L. Ramkumar:** We are in the process of finalizing it. Each year we spent around Rs. (+200) crores.
- Bhavin Shah:** But could you split into the three segments?
- L. Ramkumar:** Fine tuning we have to do, but largely our CAPEX requirements for Bicycles will be almost nil, nothing may be by some odd things minus things. Bulk of it will be for Tubes followed by Chains and Fine Blanking and a little for doorframes from new model this may come into existence.
- Bhavin Shah:** We said Rs. 200 crores per annum.
- L. Ramkumar:** Yes (+200) crore.



- Moderator:** The next question is from the line of Preeti Rs from UTI Mutual Fund. Please go ahead.
- Preeti Rs:** Yes before that if you could just share the tonnage in the Engineering segment that you made for this quarter?
- L. Ramkumar:** Tubes and Strips together, we raised 70,000 tons versus 58,000 tons last year same quarter.
- Preeti Rs:** That is a very good volume growth, but we have not seen a similar impact on the margins per se or even EBIT per ton if you have to calculate so if you could comment on that?
- L. Ramkumar:** See there have been steel price increases during the quarter and the nine months overall and so the recovery of steel price is very important, and you never recover a percentage margin. Supposing we have a Rs. 3000 per ton increase we recover equivalent of Rs. 3000, but we cannot recover a Rs. (+3000) margins so whenever price increase take place and we get an absolute increase there is an impact on the margin, in terms of the drop in the margin actually that has to be compensated by efficiencies and product mix and stuff like that, that is the reason why you are not seeing a significant, but Rs. 37 crores to Rs. 47 crores is what we have gone in the Engineering division and the PBIT.
- Preeti Rs:** Going forward any correction in the commodity is the only hope?
- L. Ramkumar:** Not necessarily, I think we have made some new investment for new facility in Rajpura which should be commissioned by March, April. So as that we ramp it up will be more turnover and that will add to the margin plus we are also constantly looking at consolidation and efficiency, cost reduction to counter the steel price increase or non recovery, but when it come suddenly within a quarter or something it is becoming difficult to bring back the margin percentage plus we also constantly look at our mix of products, how can we maximize our high value margin products that also would take place. So, I think over a period of time this will get corrected.
- Preeti Rs:** Is it right understand capacity in this division it is around 5,20,000 tons?
- L. Ramkumar:** We did not know how you got that number because we do not look at it like that, we look at it in segments. So I am not able to immediately react what is the number you are talking about, but I can say that Tubes we are expanding with a new plants. If I ignore that most of the plants even large diameter plants I said we have reached nearly 80% capacity. Most of the other almost at the brim in terms of capacity utilization, cold roll strips ERW tubes almost every category of products.
- Preeti Rs:** Yes that is the concern because we are almost operating at 80%, but we are not seeing the benefit of it on the margin even when the volumes will come back.



- L. Ramkumar:** No, we must understand one of the projects is large diameter tubing is just started breaking even now. As I mentioned EBITDA breakeven now we are coming PBIT breakeven, so every time this happens the margins keeps going up. So as the volume goes up and also it is minor investment and better price recovery there will be upside for us without much investment.
- Preeti Rs:** Just on the Cycles we also added some capacity in last two years, is that right?
- L. Ramkumar:** Correct.
- Preeti Rs:** I mean what is the thought process behind this I mean why would we add capacity and Cycles when we know that it is not a structural segment going forward?
- L. Ramkumar:** Yes see there are two things. One is capacity was added sometime in 2016 June and decision was taken in 2015 thereabouts take some year to do this. So that time the outlook of the market was not like this. We were growing if you saw the number we had profits and turnover was growing at that point of time and we had to close down. We are coming to a point where we had to close on plant in Noida because the lease was expiring, there was no way we could have expand it that further thinking at the time we were growing by 8% to 10% every year. So we had a capacity of 130,000 to 140,000 Cycles per month. So when we expanded we said we might ourselves create more headroom, we cannot create plants many time. So we went from a 140,000 to 250,000 capacity to that extent we can say we put a much bigger plant in terms of investment, so that is the context in which this was done. Anyway, part of it is as replacement for existing plants then came all these downslides we are talking about in the last couple of years since these plants was commissioned.
- So now we are looking at actually we have three plants, Nasik, Ambattur, and Rajpura. So we are really thinking whether we need three plants or two plants. So we need to know to look at fine tuning our manufacturing capacity and cost to keep pace with the current volume levels and also simultaneously look for opportunities to enhance our percent in certain segment maybe some emerging segment which at the moment are very small. So broadly this is going to be the game plan as far as Bicycles is concerned.
- Preeti Rs:** So, you said where we had 9.5 lakh sales for nine months right?
- L. Ramkumar:** Three months.
- Moderator:** The next question is from the line of Vipul Shah from Sumangal Investment. Please go ahead.
- Vipul Shah:** Since you commented that all of the plants in tube division are running at almost at full capacity what are the expansion plans and how much percentage will be added over next one or two years?



- L. Ramkumar:** Already I mentioned to you that we have building a new plant in the north in Rajpura for Tubes this will be commissioned sometime in March, April.
- Vipul Shah:** What will be the capacity addition?
- L. Ramkumar:** Capacity addition is 1,200 tons per month to start with, but the demand picks up we can scale it up much faster because we will have all the infrastructure and all that.
- Vipul Shah:** So initially it will be 1,200 tons per month, right?
- L. Ramkumar:** Correct.
- Moderator:** The next question is from the line of Kashyap Pujara from Axis Capital. Please go ahead.
- Kashyap Pujara:** Couple of questions firstly could you give us what is the debt number currently?
- L. Ramkumar:** In December end it was Rs. 873 crores total.
- Kashyap Pujara:** And what would be the cash because Shanthi would have Rs. 150 crores, so what would be the total cash on our books?
- L. Ramkumar:** That is only Shanthi Gears cash because here we operate on CC
- Kashyap Pujara:** So around Rs. 150 crore cash on Shanthi Gears and if you were to sell you said that in one of the plants you might look at getting out of, so what kind of cash that would generate in case you were to sell the plant, or something should we look at cash from that?
- L. Ramkumar:** No it is significant at this point of time there could be maybe sold as maybe used one of the divisions for better use. We have not yet decided what we want to do with that?
- Kashyap Pujara:** On the cost pressure bit while you did mention about some cost pressure because of rising steel prices, but overtime the PBIT per ton have been fairly consistent and I realize that we do pass the cost pressures may be with the lag. So, is it fair to assume that we would see better margin per ton going ahead as we pass on the cost pressures in the next quarter?
- L. Ramkumar:** We keep on passing on the cost we will not increase per ton margin you have to recover more or you have to reduce cost, so we are looking at how to reduce the cost further through scale, through mix etcetera.
- Kashyap Pujara:** But price increases I mean just asking what is your sense?
- L. Ramkumar:** Price increases will have to be recover if you do not recover then there will be huge dent I think we are doing it with great difficulty.



- Kashyap Pujara:** But we are doing it both the cost front and on the better pricing front.
- L. Ramkumar:** No what cost I am talking about is internal. OEMs do not give price increases so easily, every time you have to explain, you have to go through that process which by and large we have tuned our people to do it, but it is a challenge. So, we are always happy when there is a steady steel price actually without much fluctuation.
- Kashyap Pujara:** No, fair enough, but having said that I mean we are conscious of the view and we will be gradually taking pricing up?
- Mnaagment:** Pricing up means we will take prices only to the extent in the current product, new products will have some pricing advantage obviously.
- Kashyap Pujara:** Just to understand from a current capacity while you did mention that we are operating in some segments at a brim, but what kind of incremental top line that one can generate from the current facilities that we have on hand and new CAPEX I will take it up separately but from the current facilities we know what kind of revenue incremental that we can generate.
- L. Ramkumar:** When we place where we have too much capacity Cycles, so for all the other gap of 10% to 15% that is all, but I do not like to put a number because it depends on the market trend what kind of product we can make and sell and all that.
- Kashyap Pujara:** Largely it would be Cycles, Large dia, Fine Blanking maybe Coahes etcetera, but otherwise more or less Tubes ex Large dia would it be at optimal capacity Chains would it be at optimal capacity that is what my questioning was?
- L. Ramkumar:** Only Cycles has got excess capacity. Fine Blanking does not have full capacity we are expanding. In the case of Chains we are full up there in the case of Large dia also we are reaching close to 80 to 85 there is not much capacity left 90% nearly so maybe nearly. So we have to make little more investment to increase there.
- Kashyap Pujara:** Tubes we are doing this constant.
- L. Ramkumar:** So the one we place I will say we have quite a bit of capacity in Cycles where we have to find the market.
- Kashyap Pujara:** And excluding Cycles what is the kind of growth that one can look at on a sustainable basis long term like Cycles we understand we will go through this transition which might take a 1 years or 2 Years so I am excluding that for now, but on the balance 70% of revenues what kind of sustainable growth should one look at?



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- L. Ramkumar:** This year auto industry has been good. So our fortunes are linked to that. It will be somewhat similar to that, but I am not able to say we are just in the process of finalizing the business plan for next year, but sometimes in April where we will be in a better position to say this.
- Male Speaker:** I am going back to your previous question cash balance if you are referring to December 31st closing we had 90 crores in Mutual funds in TI also, but that is only temporary thing which we keep adjusting it.
- Moderator:** As there are no further questions I would like to hand the conference back to the management for closing comments.
- L. Ramkumar:** I would thank everybody for your participation.
- Moderator:** Thank you very much. On behalf of Axis Capital Limited that concludes this conference. Thank you for joining us ladies and gentlemen you may now disconnect your lines.