



“Tube Investments Q3 FY19 Earnings Conference Call”

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MANAGEMENT: MR. VELLAYAN SUBBIAH – MANAGING DIRECTOR
MR. MAHENDRA KUMAR – CHIEF FINANCIAL OFFICER
MODERATOR: MR. KASHYAP PUJARA – AXIS CAPITAL LIMITED



Moderator: Ladies and Gentlemen, good day and welcome to the Tube Investment Q3 FY19 Earnings Conference Call hosted by Axis Capital Limited. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the 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 Limited. 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 to discuss the Q3 FY19 Earnings. From the management side, we have Mr. Vellayan Subbiah who is the Managing Director and Mr. Mahendra Kumar who is the CFO. Without taking much time I hand over the floor to Mr. Vellayan Subbiah. Over to you, sir and by the way a big congrats for a good set of numbers.

Vellayan Subbiah: Thanks Kashyap. I will just give a quick overview of quarter performance and then turn it over to all of you for questions. Thanks again for joining me this morning.

Like we have said the company will continue to focus on the four key priority areas of ‘Revenue Growth, Profitability, Return on Capital Employed and Free Cash Flow’. On these metrics basically, we have done a revenue of 1,341 crores for the quarter which is a 15% growth over the quarter last year and for 9 months we have done 4,062 crores which is a 17% growth over the corresponding period last year.

PBT before exceptional item was at 122 crores this includes a dividend from Shanthi Gears so if you take that out it is actually a growth of 84% over Q3 of last year and the PBT for 9 months is at 285 crores which is a growth of 69% over the corresponding period last year.

The ROCE for 9 months is at 20% and free cash flow of 41 crores for 9 months so that is a one target that we were still not hitting on and we need to focus more on.

So, just a couple of things for the quarter basically the PAT for the quarter was at 77 crores standalone, as against 35 crores in the same quarter last year. With those 29 crores of dividend income from Shanthi Gears and the result also considered impairment provision of 12 crores pertaining to Tsubamex which is a joint venture company we have. Now that company were in the process of basically winding down and we believe that this impairment should basically take care of the total wind down cost so we will have nothing else left in cost on TTPL after this.

In terms of each of the businesses:



The engineering business continue to grow. We had volume growth of 9% in tubes and large diameter plant recorded 23% volume growth. Revenue was 747 crores compared to 599 crores in the corresponding quarter of the previous year and profit before interest and tax was 59 crores versus 48 crores for the same quarter last year and therefore ROCE moved up to 36% for those divisions versus 24%.

Cycles continues to be a big challenge and I think this will continue for another three to six months at least. Basically, market conditions are challenging and trade volumes have dropped at the overall market. So, we have had a revenue drop of 6% and PBIT was 5 crores as against the loss of 3 crores in the same quarter last year.

The metal formed business continues to do well, door frames grew by 12% and chains and kits grew by 4% and 6% respectively. Revenues was at 353 crores versus 297 crores that is a 19% growth and PBIT was at 36 crores versus 29 crores which is a 25% growth. For 9 months' ROCE for the division was 29%.

And in terms of consolidated results the revenue was higher at 1458 crores, 15% higher at that level. PAT was at 65 crores as against 34 crores and Shanthi Gears had revenue of 62 crores as against 54 crores in the corresponding quarter. PAT was 10 crores versus 7 crores in the corresponding quarter last year. So, I will stop with that and turn it over to all of you for questions.

Moderator:

Thank you very much. We will now begin the question and answer session. The first question is from the line of Sanjay Shah from KSA Shares and Securities. Please go ahead.

Sanjay Shah:

Can you throw some picture on our engineering division, what are our growth strategy in the division and what new product launch we see, do we have anything in pipeline. Number two our large-dia pipe our export to US how it is planning out after this, is there any impact after this anti-dumping duty?

Vellayan Subbiah:

So, let me answer that second part definitely there is an impact and our exports for US has pretty much been hard and been brought close to zero. Most of that export volume has been picked up from our European and Asia exports and as a matter of fact we will have a best year of exports ever. Exports is a key focus for us and we continue to see that in all of the new products that we are developing as well. As a matter of fact, I will say that export in the engineering business export is our biggest focus and for large diameter tubes and for the regular tubes that are made in our other four facilities. In export we are developing new products so basically the way it works obviously as you know we do front fork exports as well, but our non-front fork also we have started off developing new products in tendon with our European OEM partners I mean European OEM customers and some of these new products are going into pilot this year. So, we are not announcing the new products out here, but once they get more fully develop we will share them with you. We do believe that those products will



give us a very good boost for growth in the 19-20 and 20-21 years in terms of export volumes from the engineering side. Like I said the biggest focus to answer your first question is on export volumes predominantly into Europe at this stage, but if we get that Europe penetration we also believe that we can sell those rest of those product globally and to India when those products begin to come to India. A lot of focus there continues in the concept of rod to tube conversion which takes weight out of both the passenger and commercial vehicle and is becoming kind of a bigger trend as more and more of them move to light weight.

Sanjay Shah: So, is there a chance of dependence on auto industry can be reduced or it will be same at around 70% levels in engineering?

Vellayan Subbiah: In the engineering business I would say that level of dependence will continue now obviously as you know, large diameters works a lot with the construction equipment and all that which is also ancillary to auto but it is slightly different and we will continue to push down that I mean the largest on large diameter is on the construction equipment side and that will continue as we push down on the large diameter business.

Sanjay Shah: Can you give a growth strategy for metal forming division too?

Vellayan Subbiah: Yes, so metal forming basically like you know we have core clients their approach for taking there is obviously different for the chains business and for the other businesses. Basically, we are trying to diversify the railways business and we are trying to grow fairly aggressively and will continue to grow. On the chain side we want to strengthen our position in the aftermarket and that is something that were going to get much more focused on this year and start moving into the heavier change to basically kind of get a better portfolio balanced between the lighter two-wheeler chain and the heavier chains. On the industrial chain again we are beginning to focus a lot more on exports and in that we had two customer wins on the export side recently and one of them is OEM. So, we think that there is a lot of opportunity on the industrial chain side to start exporting more and going into the OEM again in Europe predominantly to start and then from there to the US.

Moderator: The next question is from the line of Vipul Shah as an individual investor. Please go ahead.

Vipul Shah: Sir can you switch the engineering division revenue into domestic and export?

Vellayan Subbiah: So, engineering is now about 15% export.

Vipul Shah: Should I assume that Large-Dia is mainly export?

Vellayan Subbiah: Large-Dia also is predominantly domestic.

Vellayan Subbiah: Around 20% Large-Dia sales could be export.



Vipul Shah: And the expansion we are proposing in the Large-Dia will be predominantly for export or it will be for domestic also?

Vellayan Subbiah: Both.

Vipul Shah: Okay it will be both.

Moderator: The next question is from the line of Kashyap Pujara. Please go ahead.

Kashyap Pujara: Excluding Large-Dia the nonautomotive side how would that be growing at?

Mahendra Kumar: You mean the remaining business.

Kashyap Pujara: Yes, I am saying the non-auto side apart from the auto the non-automotive the one which go into other engineering applications excluding Large-Dia.

Mahendra Kumar: That is not very significant because most of it is only the auto part.

Kashyap Pujara: Okay.

Mahendra Kumar: I think we could see about double digit low double-digit growth maybe 10% to 11% growth.

Kashyap Pujara: So, basically the growth has been largely broad based.

Mahendra Kumar; Correct.

Kashyap Pujara: Sure and within the metal formed division you know how are we getting success on the replacement market exports how is the margin profile there and the growth rates there started to see better uptake.

Mahendra Kumar: So, I would still say it is early days at this stage Kashyap we just started focusing much more on the replacement market and our belief is yes that we will start you know getting that traction, but I think it's too early to claim any events.

Moderator: The next question is from the line of Shyam Sundar Sundaram Mutual Fund. Please go ahead.

Shyam Sundar: With today engineering division how much is Large-Dia contribution to revenue on a 9 month basis?

Mahendra Kumar: Large-Dia engineering could be about 10% of TPI sales.

Shyam Sundar: Sir generally in terms of the margins mix profile between the Large-Dia and the other tubes how will be the margin?



- Mahendra Kumar:** That will be more or less similar only.
- Vellayan Subbiah:** We are saying that the Large-Dia were still kind of evolving that business, but at steady run rate though we do not kind of discuss margins at that level. The general belief is that Large-Dia is little bit higher than the core business.
- Moderator:** The next question is from the line of Abhishek Ghosh from DSP Mutual Fund. Please go ahead.
- Abhishek Ghosh:** Just wanted one clarification the volume growth in Large-Dia is closer to 23% but the revenue growth is only 10% is that a right reading so is there a realization drop there?
- Mahendra Kumar:** No , in terms of value 50%, in terms of volume 23%.
- Abhishek Ghosh:** Also, in the metric formation division also you have seen a volume growth of 12%, but the revenue growth has been far higher so again are we getting some realization benefit that we have seen in this current quarter and that may kind of come off in fourth quarter because of raw material prices having corrected is this a possibility there?
- Mahendra Kumar:** Raw material price increase happened in Q3 or that has been factored in, but the recovery is not yet assumed for Q3 volume. So, once they are finalized in Q4 they will be recognized. Both raw material price increase as well the revenue realizations have been made on provisioning basis even the raw material price increase also will get finalized only in Q4. So, based on the final levels we will recognize the net benefit in Q4.
- Abhishek Ghosh:** Does that have any impact on the margins?
- Mahendra Kumar:** The latest indications are that yes, the raw material prices are softening yes that should have some positive which we have still not seen in the third quarter.
- Vellayan Subbiah:** But that adjustment is always there right it is a kind of a constant process.
- Abhishek Ghosh:** What is the usual lead time when we adjust is there a time line like three months, six months?
- Vellayan Subbiah:** Usually one quarter unless these does not get settled in that.
- Abhishek Ghosh:** Just one more thing in terms we are seeing some amount of pressure in terms of the overall auto OEM segment is that also kind of percolating down to the auto angst, how are you looking at that, is there a negotiation on this thing from the OEM in terms of, are you kind of seeing that?
- Vellayan Subbiah:** Yes, definitely there is a slowdown in January and even in surprisingly usually Feb and March and the biggest month so we continue to see that and seems to be happening both in the two



wheeler and the four wheeler space and unclear as to when that will kind of pick back up again, but yes there is a bit of concern going on over a period of time, but in general from what I can tell we are still kind of on track with our general time.

Abhishek Ghosh: And if you can just help us with for the 31st December what would be a debt level have we paid down any further debt from September and how will a working capital look if you have this figures?

Mahendra Kumar: The net debt was about 652 crores so compared to the year beginning we actually brought it down by about 35 crores. There was some slight increase in the working capital levels mainly because of the institutional business which is getting deferred from H1 to H2 but it should again come back to normal levels by year end.

Vellayan Subbiah: Well that is more than a 100 crore right so basically what we are seeing is almost a 100 crores swing being caused by that business and that obviously kind of our focus is to collect on most of that revenue by March and as long as we can do that then we will swing the net debt position to the least in March timeframe.

Abhishek Ghosh: And this institutional what portion of our overall revenues?

Mahendra Kumar: We are about 5% if you see the full year number.

Abhishek Ghosh: 5% our overall revenue would be institutional where we are seeing the working capital deterioration is it?

Mahendra Kumar: 5% of the total company revenue.

Abhishek Ghosh: Of the total company but that will be largely sitting in Large-Dia engineering?

Mahendra Kumar: No, we are talking about the cycles.

Abhishek Ghosh: And just lastly in terms of the metal formed products also how are you seeing the traction from the railways you briefly mentioned about it if you can just share some more light in terms of what can be the trajectory there that can be helpful?

Vellayan Subbiah: Yes, it is very good. The ICF they are continuing to grow and our market share are good with them so we continue to grow there and now we are just starting up in MCF in Bareilly so we are hoping that will also lead to good growth next year. So, across the two I would say that area will continue to grow strongly for us.

Abhishek Ghosh: And just one last one from my side if you can just help us with 1920 the expected CAPEX that way?



- Vellayan Subbiah:** We are still finalizing for the financial year so I think we do have a final number yet, but we should be able to kind of give you some guidance on the next call.
- Moderator:** The next question is from the line of Kashyap Pujara from Axis Capital. Please go ahead.
- Moderator:** The next question is from the line of Prasheel Shah from CapGrow. Please go ahead.
- Prasheel Shah:** I just wanted to know your capacity utilization and you also mentioned about having some CAPEX plan which we will talk about next quarter right?
- Vellayan Subbiah:** Yes capacity utilization wise I think there was an earlier question in terms of what happening overall in the market like we did say there has been a softening in December and January and that is continuing into February. So, capacities are I would say in the about 85% range right now. We will have to see kind of what happens as we go into the next year that is why I said we have not stated any CAPEX numbers yet.
- Moderator:** The next question is from the line of Sailesh S from B&K Securities. Please go ahead.
- Sailesh S:** My question is on cycle segments cycle hold market share gain come in and how we will revive relationship back in trade shoot and also what is low hanging fruits for the margin improvement which could happen immediately and any tieups for design and licensing any plans we have with foreign players you throw some light on that?
- Vellayan Subbiah:** First in terms of like margin expansion basically a huge expansion. So, two things we are doing one is that we are predominantly been focused on the EBO segment which is track and trial. Now in the coming year we are going to take a much more equitable focus on distributors MBO and EBO multi-brand outlets and track and trail. So, we are basically hoping to get increase revenue from the distributor and multi brand outlook segments where we had lost some shares so there is an increased focus on that.
- Sailesh S:** What is the breakup exclusive on multi-brand?
- Vellayan Subbiah:** It is about 40-40-20 and second there is a lot of focus on cost reduction through our system on logistics cost, conversion cost all of that and we believe that as that begins to happen we will begin to see margin expansion. So, we think that will start playing out fairly soon. You had one more question.
- Sailesh S:** Tie up for the same and licensing with....
- Vellayan Subbiah:** Not at this stage we have got a very strong design team and our design have already been they are still very well recognized by the market. So, we do not see any necessity for more tie ups.



Like you know we already have a couple of tie ups right now so we do not see any necessity for anymore at this stage.

Sailesh S: So, for the 9 months what is our transport side cost as a percentage of sales for the 9 month and compared to last year?

Vellayan Subbiah: We do not release that granular data just a focus like we said is that we are very focused on reducing this cost.

Sailesh S: So, any update on this TMT bars, what are the initiatives and how they are progressing?

Vellayan Subbiah: We have launched in we have launched it in Tamil Nadu. We have launched it first in Chennai, now we have launched it in Coimbatore very good response from the first two market launches and next time we will just start sharing at least sharing at least initial sales data.

Moderator: The follow up question from the line of Shyamsundar Sriram from Sundaram Mutual Fund. Please go ahead.

Shyamsundar Sriram: On the margin differential between the Large-Dia tubes and the other tubes if you can just highlight even qualitatively or if you can quantify that?

Vellayan Subbiah: Like I said the what we see is that in steady state we believe that the Large-Dia tube will be at a slightly higher margin level than this thing, but that is not playing out right out.

Shyamsundar Sriram: I think the metal forming sir between chains and door panels and others what would be our 9-month revenue mix if you can just help with that and similarly for PBIT just some ballpark numbers would help?

Vellayan Subbiah: Again, there we do not release more granular data on that.

Shyamsundar Sriram: But chains will be predominant portions is there any indication?

Vellayan Subbiah: Chains is larger than the other players larger not predominant.

Shyamsundar Sriram: And in the chains in the aftermarket size will be about 650 crores sir broadly what will be our market share sir?

Vellayan Subbiah: Sorry what is the question?

Shyamsundar Sriram: In the chains in the two-wheeler specifically which is a larger size the overall aftermarket size will be about 600 crore sir?



Vellayan Subbiah: Overall aftermarket. You are trying to get to the same answer in like multiple different ways man we do not release that level of granular data.

Shyamsundar Sriram: Sir with the door panels with the safety and all of course it is already well coming through in terms of new launches etcetera, are we seeing any shift in terms of the technology, in terms of higher tensile steel, any trends that you have already seen?

Vellayan Subbiah: Everybody is constantly moving to have tensile steel and higher strength steel. So, there our focus also continues to be on that, but there we have very good relationships with the OEMs and so we work with them and kind of developing what will come out as a new standard as they move to new platform because obviously kind of it linked with the rest of the car body as well.

Shyamsundar Sriram: So, I mean is there an incremental nonlinear opportunity there that we can grab that was where I was coming to?

Vellayan Subbiah: Basically obviously kind of there are two ways to make these door panels. One is pressing and one is forming. So, the non-incremental opportunity for us is more people move to role form the sections versus pressing which is what we are working with various manufacturers on right now.

Shyamsundar Sriram: So, in the cycle division our capital employed has increased sequentially is this because of any institutional order that you highlighted earlier?

Vellayan Subbiah: That is a working capital item and that is what moves quarter-on-quarter there is no asset investment.

Shyamsundar Sriram: Sir in performance cycle as a mix in the volumes will be how much sir for this cycle?

Vellayan Subbiah: Very small you are talking about specials or performance cycles?

Shyamsundar Sriram: Performance cycle.

Vellayan Subbiah: Performance cycle is very small it is less than 5% overall.

Shyamsundar Sriram: But there the growth will be very strong 28%.

Vellayan Subbiah: Yes there the growth is good.

Shyamsundar Sriram: You are seeing the market is not yet ready for that kind of cycle I mean for large enough?

Vellayan Subbiah: The markets are not large enough in India for that.



- Moderator:** The next question is from the line of Jigar shroff from Financial Research. Please go ahead.
- Jigar Shroff:** Sir I have two questions one is you talked about the Railways opportunity can you talk a bit about it and what would be the contribution of the Railways division at a metal form and my second question would be with steel prices softening would it aid our margins going ahead?
- Vellayan Subbiah:** In terms of steel prices softening yes it does help in certain segments in certain segments where the OEM we just respectively pass through so there it does not affect, but on other segment yes it does help us where the relationships are not pass through and railways like I said we do not release that information that granular level, but it is a segment that kind of growing slowly and steadily for us for a some stage we will start sharing more specific data at this stage we do not release more level than that.
- Moderator:** The next question is from the line of Achala Kanitkar from Biral SunLife. Please go ahead.
- Achala Kanitkar:** I just wanted to understand little bit more on the two-wheeler category you have been seeing the demand from the OE side has been softening a bit, so just wanted to get an understanding as to are you seeing this the orders from the OE is getting downgraded over next two to three months or you expect before we are bit prolong?
- Vellayan Subbiah:** If you ask me my reach is more like the next two to three months, I do not see it being extremely prolong.
- Achala Kanitkar:** And what the kind of downgrading that the OE are doing I mean vis-à-vis what they were to order book that would have given you earlier how much are they downgrading it by?
- Vellayan Subbiah:** About 20% to 25%.
- Achala Kanitkar:** And would it similar for the passenger vehicle as well?
- Vellayan Subbiah:** It varies by manufacturer in some cases yes but in some cases it did not.
- Achala Kanitkar:** But again, your feel is next two to three months this should resolve?
- Vellayan Subbiah:** On Pass-Car I think the pickup might take a bit longer I think it will be quicker on two months.
- Moderator:** The next question is from the line of Manikandan Sanjive from RBL Bank. Please go ahead.
- Manikandan Sanjive:** I just have a couple of question one is that given that the cycle segment is going for a slow down so how does your company see the sales mix between cycles, engineering and metal forming two or three years and my next question will be like I think some 1 to 3 crore of NCDs were supposed to be redeemed during the third quarter how was this redeemed like by means of DRR and internal accruals or any kind of fresh NCDs are issued and NCDs were....



- Vellayan Subbiah:** In terms of the cycle business your question definitely in our mind the engineering and MFPD as I said of our overall business that in new business our share of our overall business will go up and we do not see cycles to be the fastest growing business for us or even kind of huge growth business for us going forward. The second question on NCD yes, we did redeem some of it was internal accruals. We were not fully availing all of the packing credit that we had opportunity to use, so we are now fully availing that as well.
- Moderator:** We have a follow up question from the line of Vipul Shah as an Individual Investor. Please go ahead.
- Vipul Shah:** Sir what is our existing Large-Dia capacity and after expansion what will be the capacity in tonnage?
- Mahendra Kumar:** You are talking about the engineering one.
- Vipul Shah:** What is the existing capacity and after expansion what will be capacity in tonnage?
- Vellayan Subbiah:** We do not reveal the exact number, but after expansion there will be an increase of about 10% to 15% over the current levels.
- Moderator:** Ladies and gentlemen as there are no further questions from the participant. I now hand the conference over to Mr. Kashyap Pujara for closing comments. Thank you and over to you, sir.
- Kashyap Pujara:** Thank you everyone for being here and thank you Mr. Vellayan Subbiah and Mahendra Kumar for answering all the questions looking forward to seeing you again in the next quarter.
- Moderator:** Ladies and gentlemen on behalf of Axis Capital Limited that concludes this conference. Thank you all for joining us and you may now disconnect your lines.