



“Tube Investments Q1 FY13 Earnings Conference Call”

August 07, 2012



MANAGEMENT: **MR. L. RAMKUMAR – MD, TUBE INVESTMENTS**
MR. K. BALASUBRAMANIAN – CFO, TUBE INVESTMENTS
MR. U. RAJAGOPAL – VP FINANCE, TUBE INVESTMENTS
MODERATOR: **MR. KASHYAP PUJARA – ENAM SECURITIES PVT. LTD.**



*Tube Investments of India Limited
August 07, 2012*

Moderator

Ladies and gentlemen, good day and welcome to the Tube Investments Q1 FY13 earnings conference call hosted by Enam Securities Private Limited. As a reminder for the duration of this conference, all participant lines will be in the listen only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need any 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. I would now like to hand the conference to Mr. Kashyap Puajara from Enam Securities Private Limited. Thank you and over to you sir.

Kashyap Puajara

Good afternoon friends. It is a great pleasure to have with us the management of Tube Investments. The management is represented by Mr. Ramkumar who is the Managing Director, Mr. Balasubramaian, the Chief Financial Officer and Mr. Rajagopal. Without taking further time I hand over the floor to Mr. Ramkumar. Over to you Sir.

L. Ramkumar

Would afternoon to all of you and welcome to this conference. We thank you for taking time off to attend this conference. I will quickly run through the key highlights of the performance in the 1st Quarter. On a standalone company Tube Investments of India Limited our turnover grew by 4% and in terms of profit from operations and before other income finance cost and exceptional items there has been a drop in terms of our profits from 85.98 crores the same quarter the previous year to 71.85 crores in this quarter. And finally if you see the net profit for the period it is lower and 38 crores as against 50 crores for the same quarter the previous year.

I will quickly come into the individual segments; in the bicycle segment we grew by 5% in terms of the top line, this segment has been little steady and we have grown in volume terms as well in 6%. The market has been reasonably good compared to the 1st Quarter of last year. In engineering segment we grew by 10% this is because we are present in the two wheelers, passenger cars and commercial vehicle segment and the two-wheeler have had a reasonably good growth during the 1st Quarter. There is lot of very critical items in supply to the two wheeler, some of these components we increased our market share as well because we were able to substitute some of the imported tubes of certain critical applications. The real problem we had is in the metal formed products which consist of chains, door frames and railways products largely. While in the chain business we did grow in the OEM sector which is in relation to the two wheeler growth. We had a major drop in the spare's market which is largely because the OEMs mainly, Bajaj, Hero, TVS and all these people had huge stocks of spares. Today in the aftermarket of chains in India 60 to 65% is being catered to by the OEMs themselves the balance is done by the manufacturers like ourselves and our competition. While we could increase our sales through the trade, we could not increase the sale impact the sale drop vis-à-vis what happened last year same quarter in the spares market. We grew in the fine blanking segments, we grew in the industrial segment exports by nearly 30%. In the case



Tube Investments of India Limited
August 07, 2012

of door frames there was a drop because the passenger car market was not growing that much in certain specific models which we had tooled up like Tata Nano, Tata Indica the growth was not there at all. In the case of railway wagons while there were some quantities which has gone in the 1st Quarter, there is a significant drop in the realization because of the pressure on prices and competition which is the reason why you will see a big drop in the profits compared to the same quarter of the previous year. We really see the segmental analysis from 32.7 crores we come down to 23 crores, something like nearly 9 crores drop quarter on quarter and roughly this is major drop which is accounting to the major difference between last year same quarter and this year. While this is a picture as far as standalone is concerned. In the case of consolidated accounts the performance is being very gratifying. Both the companies in the financial services sector have done exceedingly well.

In the case of Chola Finance the disbursements overall went up by 52%. The profit before tax by 63% and profit after tax 84%, this year 1st Quarter with the 1st Quarter of the last financial year. Hence our consolidated income also went up by 53%. In the case of Chola Insurance the gross return premium went up by 25% and our PAT went up by 83% from 6 crores in the 1st Quarter last year to 11 crores in the 1st Quarter of this year, this is after absorbing 20 crores of claims on account of the multiple losses.

While this is the picture, the question is going forward how do we see the business prospects? I think the automobile industry we are seeing signs of slowdown while till July things were fine in the two wheelers and the passenger car industry in terms of order load for us. We are already seeing some signs of slowdown in August with the order loads coming down.

Railways, needs to release the second tranche of orders in the month of July like it has happened in the past, it is got postponed to August. Hopefully it will be done by the middle of August. But the pressure on margin will continue because the prices are unlikely to go up in the railway wagons sector.

Looking at exports we do have some opportunities for export of tubes to the ASEAN countries. We supply to major Japanese OEMs who make shock absorbers and Front Forks in India, similar people who would like to buy our products we are gone through the initial qualifying process, ASEAN is a big market for two wheelers so we should be seeing some grow there. But our chain export could get affected to some extent because of the sluggishness in Europe where we sell nearly 60% of our chain products. We believe the spares for chain will definitely pick up because we should have been some stock correction in the last 3-4 months.

Overall if we talk about the margins I think there has been pressure on margin in Standalone Company. This is largely due to increase in power costs and some material cost increases which could not be passed on because of the market conditions and the volumes had also been



Tube Investments of India Limited
August 07, 2012

go up as much as we had planned. If the volumes had gone obviously we would have got the benefit of the fixed cost. Going forward we believe the margins should be protected at least at the current level with a number of cost reduction initiatives to counter the inflationary cost push as well as any drop in volumes that would happen because of the market conditions.

Insurance and financial services are pretty strong; they are projecting very good growth in the coming quarters. The good news about insurance is that they are provided for multiple losses last year and also they are started providing us for regulation for this year and next year and their gross written premium size is becoming significant, they continue to grow faster than the market in this industry which is excluding life insurance, it is a general insurance. Overall this is what we had to say as far as the performance of the Quarter 1 is concerned.

Coming to Shanthi Gears; I think we have to complete open offer process sometime during the middle of September around the same time we would also be in a position to take these shares from the current promoter which is 44% and the open offer should be at least 26% depending on how many people put in their shares for sale to us. The overall it could be 70% we have already made arrangements for funds in terms of purchase of the shares this is a combination of internal generation and some loans and going forward how we are looking at it is all of you might know that this company had their best achieved was something like 70 to 80% more than what they can achieve last year. We have after initial discussions found out that there are some major customers in products which can be revived by building better relationships and service. So we are currently in the process of studying the entire customer base and the product and historical analysis of data after this is over and I think we could definitely move in with our kind of management only after this shares of transfer which we believe should happen maximum by end of September then we are hopeful that we will definitely be able to take up the sales from what it is because we do see a huge potential.

In terms of synergies chains always go with sockets. We do make some sockets for two wheelers, in the industrial segment we have been supplying chains for the specified applications, the sockets for these today when we supply the chains have been bought by us or by the customer as required but these can be made by Shanthi Gears. Similarly chains, sockets and other thing also go with gear boxes. So maybe a few months down the road we will start looking at composite kind of an offering where we can offer all these 2-3 products. So broadly this is the kind of picture from our side and we would be very happy to take any questions that you may have.

Moderator

Thank you so much Sir. We will now begin with the question and answer session. We have our first question from the line of Ram Modi from Dolat Capital, please go ahead.

Ram Modi

Sir just wanted to get a sense on volumes, how have been the volumes in that tube segment as well as in the chain segment?



*Tube Investments of India Limited
August 07, 2012*

- L. Ramkumar** In the case of tubes we grew by 5% in tonnage terms.
- Ram Modi** So what would have been the tonnage?
- L. Ramkumar** Normally we don't reveal this information but we take it is 5% more
- Ram Modi** Second thing is you mentioned about certain products to be exported to the ASEAN countries so what are the kind of products which you are looking at?
- L. Ramkumar** This will be for the Front Forks and shock absorbers of two wheelers.
- Ram Modi** During our last con call you had said that we are trying to diversify our product mix towards more general engineering from auto in terms of tubes and products also so what is the steps taken and how are the expansion plans?
- L. Ramkumar** What we have mentioned is that our expansion plan in relation to this continues. We have just completed the acquisition of land and also we have got the government permission for setting up an industry there because the local authorities have to give us the no objection certificate. It has to be converted as land for industrial purposes. We have just applied to the single window clearance for various clearances on factories that power, pollution control and all that, hopefully within a month we should be able to get those clearances. Once we get that we will be going in for the Bhumi Puja. We have already ordered the equipments for this project, the only thing is we are afraid the equipments may land up before the building is ready because the land procurements and these formalities took little longer. So hopefully if we start the ground breaking in September I can maybe by next August-September we should be in a position to start the trial production, all the shipments are ready. So we are going ahead with this investment. We have committed some money already and this should happen.
- Ram Modi** And what would be the final capacity we are looking at this plant?
- L. Ramkumar** On the Cold Drawn Welded we are looking at 43,000 tons and of course the basic ERW can be much more may be it will be double like three times. Right now we are not going to be using full capacity of the ERW but CDW will be 43,000 in the year 3 actually.
- Ram Modi** About our Chennai capacity the large-dia tubes when are we expected to commission that?
- L. Ramkumar** It is the same what I told you is all near Chennai only there is no other project.
- Moderator** The next question is from the line of Amin Pirani from Deutsche Bank, please go ahead.
- Amin Pirani** I want to understand on the chain side, on the spare parts side you said that revenues actually dropped because the OEMs had lot of inventory so is it because the demand for spare has



Tube Investments of India Limited
August 07, 2012

significantly dropped was it that the OEMs were like stocking up extra products, what is the trend there?

- L. Ramkumar** We believe that the OEMs had overestimated the demand. One and a half years back actually there was a big problem of delivery of the chains, everybody had a capacity constraint we also even _____ 15.03 some change. Now we understand that actually the sales people in the OEMs had overestimated, have asked for more and the purchase people placed the orders. So some cases we even found that is as high the two times the requirement. But sooner than later the chains have to be consumed and we slowly start seeing some pickup now in this month but first 4-5 months it is very low.
- Amin Pirani** So what kind of a market share would you have which the OEMs in the chain segment in two wheelers?
- L. Ramkumar** 42 to 45 depending on the model mix.
- Amin Pirani** And you also mentioned that you gained is a market share on the tubes because of some imported tubes being indigenized, was it like with the Hero or a Honda has happening?
- L. Ramkumar** It is across all customers actually.
- Amin Pirani** Is the extent of imported tubes like is still quite high within the overall industry or is it already come down to a low level?
- L. Ramkumar** It is generally for a very specific high critical application otherwise the import of tubes are generally is low.
- Amin Pirani** You also mentioned that your export to Europe have been quite sluggish so chain exports would be what percentage of your overall, what are the chain revenues or how will you want to define it?
- L. Ramkumar** Of the metal formed division nearly 300 crores, chain export will be around 10% to 12% actually.
- Moderator** Our next question is from the line of Arvind Subramanian from IDFC Mutual Fund, please go ahead.
- Arvind Subramanian** Just on this acquisition of Shanthi Gears you said you are finding it through internal accruals and debt, could you give me a breakup because assuming 500 crores acquisition.
- K. Balasubramanian** Basically what we are doing is we have tied up for almost 300 crores at this point of time and we are looking at alternative thus we have got time till September on the transaction so there



Tube Investments of India Limited
August 07, 2012

will be some of the temporary funding requirement there but ultimately the overall debt equity what we targeting is for the end of the year is 1:1.

Arvind Subramanian This is gross debt to equity and not net debt?

K. Balasubramanian Total debt.

Arvind Subramanian Total gross debt by equity onetime?

K. Balasubramanian Yes.

Arvind Subramanian So does this mean you will be raising fresh equity or through the divestments of Chola shares?

K. Balasubramanian If you look at our structure currently our long-term debt is only 0.4521 so we have got enough room to go in the debt market and then fund the complete acquisition. We are very strong in our internal approvals and there are options available to us to bring kind of equity into the company that is being deliberated, the appropriate time that decision will be taken.

Arvind Subramanian Also this debt equity of one you are saying is only long-term debt?

K. Balasubramanian Total debt.

Arvind Subramanian So what is your total debt today?

K. Balasubramanian 860 crores both short-term and long-term put together.

Arvind Subramanian And plus another 300-400 crores for the.....and for your PAT accruals' itself will cover that?

K. Balasubramanian Yes.

Moderator Our next question is from the line of Siddharth Sivaramakrishnan from UTI Asset Management, please go ahead.

Siddharth S You mentioned that you are targeting gross debt equity of 1:1, earlier you had mentioned CAPEX outlay about 500 crores for FY13 so how much of it are you deferring or are you going for the entire amount?

K. Balasubramanian The current estimate of CAPEX will come down from 500 to 350 crores.

Siddharth S The acquisition if it goes through would be another 500 crores?

L. Ramkumar Acquisition maximum the funding requirement is around 450 crores.



Tube Investments of India Limited
August 07, 2012

Siddharth S Just a follow up on the previous fund how do you plan to bring your debt to equity down to 1:1 because our internal cash approval would be around close to 250 to 260 crores.

L. Ramkumar 300 crores.

Siddharth S So are you looking at inorganic cash flows during the year?

K. Balasubramanian We can't diverge at this stage, our operations have been looked into but only thing is we can say at this point of time is we are confident of having a debt equity ratio of total of 1:1 by March 2013.

Moderator Our next question is from the line of Kashyap Pujara from Enam Securities Private Limited, please go ahead sir.

Kashyap Pujara Just wanted to discuss with you on Shanthi Gears, basically you had mentioned that the company's operating at sub optimal utilization levels. What are the kind of utilization levels that are possible on peak utilization of this asset?

L. Ramkumar They may be operating in the range 30 to 40% I think we can go up to 60-65% utilization. We must also remember that one of the reasons why this company is profitable is also the always keep some room for capacity and keep it flexible and quick deliveries which is giving them little a premium in the margin. So we can't clog it too much but I think we can take it up to 60-65%.

Kashyap Pujara And non-core assets that this company owns that essentially right now will be on the books and we will not be divesting any of that, can we assume that?

L. Ramkumar It is on their books and it will continue to be on their books after we take are also.

Kashyap Pujara Wanted to know the run through the insurance performance, basically if I remember right there was close to 80 crores of spending motor pool losses of which it seems that 20 crores has been absorbed in this quarter, am I right?

L. Ramkumar Correct.

Kashyap Pujara So is it a right thing to infer that you will be taking the entire hit in this year itself considering that you are already showing the kind of performance traction?

K. Balasubramanian We may not be doing that because on a conservative basis we have provided for 20 crores this quarter but as we go quarter on quarter we have to review and take a step appropriately.

Kashyap Pujara So what is the gross return premium exact number as on date?



*Tube Investments of India Limited
August 07, 2012*

- L. Ramkumar** For the quarter is 402 crores.
- Kashyap Pujara** So on an annual basis you are already crossing 1500 crores in terms of gross to premium now?
- L. Ramkumar** Yes.
- Kashyap Pujara** So in that sense now that if I add back my motor pool losses you are already at a PAT run rate of 30 crores for the quarter so even there are no motor pool losses once they are completely absorbed in considering the grow that we are still seeing the trajectory can we say that this number of 30-32 crores can sustain on a quarterly basis?
- L. Ramkumar** I think so yes.
- Kashyap Pujara** So basically we can do 150-200 crores PAT possible from this entity itself and incrementally what is the kind of investments that we are looking at in the year going forward?
- L. Ramkumar** Now you are sounding like our board giving us a target. I think the prospects are good I don't want to commit a particular number, your analysis is on the like direction. Because this industry has had in the past things like this motor pool losses now which we didn't expect at the time of this order we will hope that regulatory changes will be more beneficial to insurance company with this I think we will have much higher profitability prospects. It is a simple arithmetic as you know you can add back in the motor pool and multiply by four and assuming premium will further go up then obviously will get the benefit but we will wait and see.
- Kashyap Pujara** Just a final one on the CAPEX front, by when do we see the large dia capacity getting added, will that facility start operating by end of this year?
- L. Ramkumar** No September 2013.
- Moderator** Our next question is from the line of Akhil Jain from Aditya Birla Money, please go ahead.
- Akhil Jain** I wanted to understand the recent customs duty change that has been done by the government with respect to cycles, from bicycles from 10% to 30% and bicycle parts from 10% to 20% so on the whole is it beneficial for Tube Investments or is it negative?
- L. Ramkumar** No we have been importing certain parts and certain things we have to continue to import like the gears, world our everybody buy from Shimano of Japan so to that extent there will be a cost increase which is to be passed on to the customers is what we have done. We have also been importing certain type of bicycles for the children which we have 50% indigenized already in this quarter, by October I think we will completely indigenize whatever has to be done for this segment but for the higher value segment where the bicycles are costing 10,000+



Tube Investments of India Limited
August 07, 2012

there will be going to be price increase which we already done. To that extent I would say it is not very beneficial because these cannot be made in India.

Akhil Jain But again if on the finished product if the customs duty has been increase from 10% to 30% and on parts it is 10 to 20% so isn't there a cushion that the government is given on the finished product the import duties higher?

L. Ramkumar That is correct so to that extent if you add value here I think your duty impact is less.

Akhil Jain So the 30% import duty on bicycles is across all bicycles?

L. Ramkumar Correct.

Akhil Jain So in the end you still have a 10%, earlier the differential was zero. The import duty now it is a 10% differential in favor of bicycles sellers?

L. Ramkumar Correct.

Akhil Jain On the whole so Indians should be slightly better....

L. Ramkumar The point is earlier the duty on parts was low, we have to cut it like that if you are importing parts and assembling here and making some things here generally those parts have become 20% not only these parts are significant part of the total bicycle cost. So that way there is a definite increase while it is true that if you add value here it will be better than importing the complete bicycle from wherever.

Akhil Jain On the Shanthi Gears acquisition what is the reason that current utilization of your capacity is suboptimal 30 to 40% and apart from the products synergies and customer synergies that you talked about what is it exactly that TI brings to Shanthi Gears the current promoters lack, is it like lack of growth capital to expand the capacities or is there some non-core assets that one of the participant was talking about, is it like surplus land?

L. Ramkumar To answer your question maybe we should wait for a year or two when you guys will yourself answer this question. I don't think we should go about saying we have some huge skills which others don't have. But having said that if you see the history of the company over a period of time sales has been coming down, we have been losing some customers because maybe 3-4 years back the current promoters decided to downsize the business size. And I'm sure if you read the number you will know. But we think they did it with a certain purpose whatever we don't want to comment on that. But as per our assessment their machines and their products still have a huge potential and even now the customers the order they lost can be brought back. What we would bring to the table to start with the certain professional approach, systematic



Tube Investments of India Limited
August 07, 2012

approach, the stability in management and some focus let me put it that way, focus will be on growth. Whereas they only whatever the objective is what they followed I think that is what would definitely revive this business.

Akhil Jain

Also on the non-core assets does the company has, I have also read newspaper reports earlier when there was talk of that being a potential acquisition targets Shanthi Gears that there is a lot of surplus land so is that through where you can, we have been facing land acquisition problems so does that help for the future expansion plans if there is any surplus land available with Shanthi Gears.

L. Ramkumar

They have some land of course this has been reported they are in the public domain. We have not thought of using that now or we took it over because we have land acquisition problem. Appropriate time we will have to decide, the choice will be first for expansion of Shanthi Gears itself, I think we need to find our feet there and study the prospects. Supposing **then itself 30.07** they need to be expanded that will be the first right thing to do, later on we will see if there is any merit in our using the land for any of our projects. We are not holding back any project because of this. We just said we are going ahead with the large diameter project, we have also almost completed our land acquisition in the north for the tube plant which was also got delayed. So none of that is been stopped and it is going up.

Akhil Jain

So this surplus land will remain with the company post the acquisition?

L. Ramkumar

Yes.

Akhil Jain

Your press release says that the Railway product business it's been facing a lot of competition and price pressures so last time I spoke to you in the con call you said the margins are roughly from 10 to 12% so with competition intensifying what do you see the sustainable margins for this business?

L. Ramkumar

It is very difficult to say but margins have dropped from the 10 to 12% I think it has dropped to 5 to 6% further. Now sustainable we are not able to say because we did not expect this kind of a drop from the time we have made the investments till now it has been a steep drop because there are also been some change of specifications, moving from stainless steel to cotton steel. Stainless steel is more expensive and not many people know, all this has contributed to this. We are also waiting railways are doing something on specifications and requalifying all those things. So supposing there are some good technical barriers I think we will tend to gain but if the product is little commoditized the problem will be on increasing the prices.

Akhil Jain

How much of Railway sets did we sell this quarter?



*Tube Investments of India Limited
August 07, 2012*

- L. Ramkumar** I think we did around 38 crores, previous quarter we did 56 crores.
- Akhil Jain** This is sequentially or year-on-year you are talking about 56?
- L. Ramkumar** Previous Quarter 1 60, this quarter 38.
- Akhil Jain** What is the reason that the orders from Railways are going down given the fact that Coal India is not been able to supply customers due to lack of availability of Railway rakes. So why is it that there in spite of the government being pulling of the Railways, the Railways continues to delay its orders for the Railway wagons, could you throw some light on that?
- L. Ramkumar** Is there a very logical answer from any of these questions if we pose this to the government?
- Akhil Jain** I was just trying to get your perspective.
- L. Ramkumar** My perspective is that it is very irrational, we don't know why because what they projected two years back and now decisions are getting delayed so we are at a loss to explain why these things are happening.
- Akhil Jain** And other thing like metal, and engineering business has also suffered from a margin pressure, you talked about not been able to pass on the increase in raw material cost and barring fuel cost so do you see that you will be able to pass it in the coming quarters or do you see it at a same levels?
- L. Ramkumar** We are trying to pass on, we have been successful with some customers and we have also looked that some cost reduction measures. We also believe that the power situation will improve in the coming quarters. Already in the month of May I think the wind power has come into play which is given some relief from the power cut. They are saying something will happen about the nuclear power so if there is the more supply of power I think the cost will also come down. We don't have to be thought to generating sets and all that.
- Moderator** Our next question is a follow up question from the line of Amin Pirani from Deutsche Bank, please go ahead.
- Amin Pirani** I just wanted to understand what is your growth outlook for the two wheeler chain and tubes because as you have been seeing that we have been hearing there has been a lot of inventory buildup at the dealer level for two wheelers and growth which was reasonably okay in the 1st Quarter is expected to decline significantly. So what kind of demand projection are you hearing from the OEMs and what is your own outlook for the same?
- L. Ramkumar** Two wheelers we think in the 2nd Quarter will still grow by maybe 5 to 6%.



*Tube Investments of India Limited
August 07, 2012*

- Amin Pirani** For the full-year any indications?
- L. Ramkumar** Today we are surviving by week and the month, we have to do a lot of calculation for each quarter and then do the compounded rate but this is our outlook as of now because as I said somewhere should the overall economic situation improve maybe the momentum comes back, all the growth rates can change also so we are really watching it from quarter-to-quarter.
- Moderator** Our next question is from the line of Hardik Doshi from First Voyager, please go ahead.
- Hardik Doshi** Just wanted to understand regarding the hike in the customs duty four cycles, we mainly focus on the special category of cycles, what percentage of those cycles in India are imported and do we think we can gain market share by taking advantage of this hike in duty?
- L. Ramkumar** There is a very high-end bikes as I told you beyond Rs. 8000-Rs. 10,000 and above. These kind of bikes are imported in India. My guess is we have estimated that these are may be 1500 cycles per month, 18,000 to 20,000 per annum that's the kind of thing which is growing because these are really bought by people who know about cycles and who want very good brand and with all the features and all that. It is in a small base but it is growing.
- Hardik Doshi** But then I guess in that segment the customers would be very brand conscious?
- L. Ramkumar** Of course they know a lot about cycles.
- Hardik Doshi** Secondly just wanted to understand in our other two divisions, the engineering division and the metal form products, given the sharp rupee depreciation I just wanted to get a sense of what kind of opportunities do we have in both of these segments where we can gain market share over imported products? What percentage of the current market in India is imported in both these segments and can regain market share?
- L. Ramkumar** As we said in the tubes the import is not very high, it is in some pockets of very highly critical tubes which are being imported by some customers there we have replaced into some extent subject to availability of capacity. In the case of chains there is hardly any import of two wheeler chains or industrial chains. There have been some imports of very specialized chains for certain industries, this actually requires technology, you cannot just make them. This is what we are planning to do with our subsidiary company Sedis. We are trying to improve the offering to the customers in India. On the rest of the metal form products like door frames and other things there is not that much import excepting certain specific models by specifics OEMs are being imported from nearby ASEAN countries where they are not willing to change in the middle of the model run actually. Probably when they go for of new model they would like to buy from India.



*Tube Investments of India Limited
August 07, 2012*

- Hardik Doshi** So basically overall the opportunity is pretty small?
- L. Ramkumar** We would actually like to look at exports where we will benefit on the exchange rate. Industrial chains as we have mentioned earlier grew by 30% during the 1st Quarter over the previous year there we did have a benefit. Similarly tubes and chains if they can be exported instead of doing some import substitution it is not significant we will have the benefit of exchange rates and rupee depreciation.
- Hardik Doshi** Within your 220 crores of sales in the metal form this quarter, can you give a breakup of how much is chains and door frames and railway?
- L. Ramkumar** Normally we have not been giving that. The chains and related parts is 130 crores and the door frames and railway parts is around 90 crores.
- Hardik Doshi** And out of that railway I think you mentioned about 38 crores?
- L. Ramkumar** Correct.
- Moderator** Our next question is from the line of Kashyap Pujara from Enam Securities Private Ltd, please go ahead Sir.
- Kashyap Puajara** Just wanted to come back to couple of other points. One is wanted to understand what is your view on the volume in Segment-2 which is a tube division and considering the situation we are in as far as automotive do you see any risk on volume front I mean wherein you might not be able to grow, do you see that there are any risks there in terms of volumes?
- L. Ramkumar** In the tubes?
- Kashyap Puajara** Yes.
- L. Ramkumar** I think there could be some pressure on volumes itself during this quarter because as I said we are dependent on both two wheelers and passenger cars, passenger cars especially has not been doing well in this quarter and some shutdowns are happening in August in many plants, maintenance and all that and even as one of the people who asked the question, two wheelers also seem to be having a lot of stocks now. So this quarter where they may correct in terms of their stocks in inventory so that could have an impact on our volumes.
- Kashyap Puajara** But considering that incremental capacity in terms of the stainless steel tubes have also been added do you think that your product mix can take care of overall growth or do you see that there is a structural near term issue?



Tube Investments of India Limited
August 07, 2012

- L. Ramkumar** Stainless steel is very small at the moment, our overall capacity it would be 1500 tonnes we have peaked it slowly from 0 to 50-60 tonnes for a month now that is largely non-auto. So I don't think that we will be able to make up the gap. We will have to really see how to do that.
- Kashyap Puajara** So in terms of this quarter's tonnage you did mention that we grew 5% YOY so in terms of tonnage where we would be, would we be around 50 to 52,000 tonnes on the overall division?
- L. Ramkumar** We said we grew by 5% on tubes in quantity, 5% in value in engineering division.
- Kashyap Puajara** So in terms of the total tonnage in the engineering division in terms of total tonnage could we have that number?
- L. Ramkumar** No I don't have that number. I can give that number, it will be 50,000 tonnes plus.
- Kashyap Puajara** That's the run rate we were at more or less last year and in terms of sustainable margins like if I remember correctly we are doing margins in the range of 6000 or 6500 per ton in terms of EBIT and you did mention that we can sustain margins at current levels. So do I take that margin can actually be protected at the points that we have seen this quarter?
- L. Ramkumar** Hopefully yes.
- Kashyap Puajara** Lastly in the Segment-3 which is metal form products, why you said that there has been pressure in railways in terms of margins but the business is also lumpy to that extent that if there are incremental order flows which actually come through then you can see a margin increase because your get fixed cost absorption better. So if you look at the same period last year in this segment we did 10% margin so we are at the same point at this point in time though the reason might be slightly different but the point is that we have later on bounced back to 14-15% margin is also when we actually delivered the tonnage to the railway. And second thing is that in your chains when the mix of aftermarket to OEM that also been structurally get better so wanted to understand from you that considering the last 6 years we have been more or less that margins averaging over 12% in the metal form division close to 13% what is your view on sustainable margins in this division, not from one quarter perspective but from more of an annual or from the next 2-3 years perspective where do you see margins can sustain?
- L. Ramkumar** I think it should be within 12 to 14%
- Moderator** We have a next question as a follow up question from the line of Akhil Jain from Aditya Birla Money, please go ahead.
- Akhil Jain** How much of CWD tubes do we produce on an annual basis for a decent sale?



Tube Investments of India Limited
August 07, 2012

- L. Ramkumar** What you are you talking I did not get you.
- Akhil Jain** Cold Drawn Welded tubes on an annual basis.
- L. Ramkumar** I think we would like to leave the breakup for the time being. It is the kind of competitive information we don't want to give in public.
- Akhil Jain** One of your competitors Innoventive Industries roughly produces about 30,000 tonnes CWD tubes in a year and it exports around more than 60% of it. So your competitor's contention has been that the pricing of Cold Drawn Welded tubes from international competitors is much higher than what has given by Indian producers.
- L. Ramkumar** Yeah.
- Akhil Jain** So what it has done is it has been acquiring tube marketing and distribution companies in the US and Europe to increase its sales, are we also looking at somewhat like that, what are your thoughts on it?
- L. Ramkumar** No we are not doing any of those things. We are trying to tie up as much as possible with OEMs because we have had distributors in the past in tubes especially in the US and this fluctuates very heavily whenever there is a market volatility and distributors change the suppliers very fast, the market which is not growing and oversupplied. Whereas if you are working with OEMs there is a qualification process which takes a long time for you to get in so it will also take a long time for you to get out. So consciously both in our chains and tubes business we are trying to work with people who have something to do with manufacturing after we give the tube rather than just doing the warehousing kind of a job. So we are not very much keen on doing this kind of thing of buying distributor companies.
- Akhil Jain** The kind of tubes that we make, is the pricing way lower than the kind of pricing that the European and US tube-makers give?
- L. Ramkumar** Generally we have a price advantage. Sometimes you want to increase volumes you have to do a lot of variety.
- Akhil Jain** Given that global economic environment is not good and so everyone is trying to cut cost so is the pricing difference between players like Tube Investments and global European tube-makers is there a significant pricing difference of 20-30%?
- L. Ramkumar** It could be 20% but remember they all have hassles of long lead time all said and done getting local is much better, on freight and all that but there is an advantage definitely but we must also understand when chips are down people do anything to making the business otherwise



Tube Investments of India Limited
August 07, 2012

they may have to close down. So our point is that we need more capacity actually to handle exports so we wanted to do 1000 tons, maybe for the domestic market we may have to keep the capacity of 1200 tonnes, for export we may have to keep 1800 tonnes because there will be lot of change over and small lots and stuff like that so till we are able to organize ourselves in terms of higher capacity we would not like to increase our exports. But there is a price advantage if you do it from here.

Akhil Jain

And the rupee depreciation must have also further increased...

L. Ramkumar

Yeah it is helping us.

Moderator

That was the last question. I would now like to hand the conference to Mr. Kashyap Pujara from Enam Securities Private Limited for closing comments. Please go ahead Sir.

Kashyap Pujara

Thank you so much for attending this call and thank you to the management of Tube Investments for participating along with us.

L. Ramkumar

Thank you.

Moderator

Thank you. On the half of Enam Securities Private Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.