



## “Tube Investments of India Limited Q1 FY-18 Earnings Conference Call”

**August 10, 2017**



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**MODERATORS: MR. KASHYAP PUJARA-AXIS CAPITAL**



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**Moderator:** Ladies and gentlemen good day and welcome to the Tube Investments Q1 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 the conference call, please signal an operator by pressing '\*' and 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 Evening Everyone and thank you for standing by. It is a great pleasure to have with us the management of Tube Investments of India.

From the management side, we are represented by Mr. N Srinivasan, who is the Director (Finance) of Murugappa Group, we have Mr. Ramkumar, who is the Managing Director and Mr. Mahendra Kumar, who is the CFO.

To just set the context and just to give you a brief that Tube Investments reported the Q1 FY18 Results and they reported separate financials for the financial holding company the Finco which includes 60% stake in Chola MS General Insurance and listed CIFCL and demerged manufacturing business, which was previously the standalone entity.

So, the flow would be that we would have the opening comments from Mr. N Srinivasan for the Finco, followed by brief Q&A with him in case of anyone has questions on the Finco. Subsequently, we will have a discussion with Mr. Ramkumar, who will give his comments on the manufacturing business followed by questions thereafter.

Without taking too much time, I now handover the floor to Mr. N Srinivasan, over to you sir.

**N. Srinivasan:** Thank you Kashyap. Hi friends, this is the first quarterly results of the financial holdings which consist of the line-by-line consolidation of the insurance business which is 60% subsidiary and consolidation as Cholamandalam Finance is an associate and the shareholding is only 46%. Then, we have a small company Chola MS Risk Services Limited, that results have also been incorporated.

With this, the numbers are there actually, the quarterly performance of NBFC has been good actually about 25% we had grown. As far as the Insurance business is concerned, this quarter though the topline is good, the PBT has been slightly below our expectations primarily on account of claim and little bit of lesser earned premium which we expect to set right in the next quarter. If there are any other questions, I can take.

So on the balance sheet, of course we have not published the balance sheet but you will get the balance sheet in the next quarter.

Generally, this financial holdings has is a debt-free balance sheet, the net worth of close to about 1000 crores represented by investments cost in the NBFC which is about 645 crores and then about 60% stake of the insurance which is about 265 crores and then a cash of about 55 crores as on 31<sup>st</sup> March 2017. It is a debt-free company.

On the standalone basis, the income for this company is primarily on account of dividend plus there will be some business income which will probably approved in the next couple of quarters.

If there are any other questions I can take down.

**Kashyap Pujara:**

Mr. Srinivasan, I think there are no questions on the Finco, but in case if you would like to you know point out any thoughts that you have on the next 3 to 4 years or any outlook that you would like to share, you can just brief.

**N. Srinivasan:**

Sir, generally as a group we don't give any guidance but as far as I can say this in general, as you know this is the holding company from the Financial Services business. In future, all the investments for the Financial Services business will be channelized through this holding company. Right now, this company you know has got a debt-free balance sheet and the net worth of about 1000 crores. The Board will eventually discuss going forward what will be the strategy, what will be the fund-raising plan, how the underlying companies can be grown or there are any new opportunities. Yesterday was the first Board meeting, in fact, the same meeting itself they said sooner or later we should start discussing and when this can be tables, etc., the numbers asked. Eventually may be once some plans are finalized, I may be able to share some more details.

**Moderator:**

Sure, the next question is from the line of Jayesh Gandhi from Birla Sun Life. Please go ahead.

**Jayesh Gandhi:**

My question is regarding the stake in the two subsidiaries that we have since we have limited cash on books, what is the plan? Will you be maintaining the stake or the stake that we have the holding company, the future will be going down as I believe that one of the subsidiary where especially the Financial Services subsidiary, the NBFC would be requiring capital raise in the next 6 months.

**N. Srinivasan:**

First is the NBFC will not require any capital in the next 6 months. Its capital adequacy is about 19. So at least for the next 15 to 18 months you don't require any capital for the NBFC. So currently the capital adequacy is 19, there is still some scope to raise from Tier-2 capital. So as of now we have evaluated actually in the next 18 months, we are not looking at any capital infusion, it is not required. Both Tier-2 and Tier-1 are comfortable, that is one. So then there are no plans to dilute at this point of time. Second is on the Insurance space, right now we hold 60% but all these insurance company will be mandated to get themselves listed. Earlier, there was a mandate to get listed within a particular period of time. When the new amendment bill came actually that stipulation was withdrawn, therefore, when there is a compulsion to list, we



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may have to list, so otherwise there is no immediate plans to divest any of the holdings etc., so as and when there is a discussion on board probably anything is to be reported, we can report. As you know the Finco came into existence only yesterday, therefore it will take some time for the board to firm up its thinking.

**Jayesh Gandhi:** If not immediately in the next months, I guess in a year's time or so or probably next two years' time you would require to infuse capital in the NBFC is not the Insurance arm because Insurance arm is relatively well capitalized. I guess as investor in the holding company, the endeavor for us would be to maintain the equity stake and I guess you will have to come out with some long-term projections of how to boost the income of the holding company, so that it can subscribe and maintain the stake in the subsidiaries.

**N. Srinivasan:** Point is well-taken, we are also working on those lines only.

**Moderator:** The next question is from the line of Suchit Kawatkar from ICICI Lombard. Please go ahead.

**Suchit Kawatkar:** Yes, we are having NCD in Tube Investment, so my query is what will be the status, in which company it will continue?

**N. Srinivasan:** It will be in Manufacturing only.

**Suchit Kawatkar:** It will be in Manufacturing only.

**N. Srinivasan:** So the company which will be holding will also be called as Tube Investments only, so it will be in manufacturing only, there is no change.

**Kashyap Pujara:** Listen, I think, we will move to the Manufacturing business, so let us here Mr. Ramkumar also. Sir, could you just give an overview of the Manufacturing business how you see it and then we will take the questions again please.

**L. Ramkumar:** Yes, thank you NS, for the initial remarks, just to brief all the participants about the status of our restructuring.

Yesterday we had separate board meetings for both the companies. We also received now the approval for the name change that is the final names for the companies will be TI Financial Holdings will be the name of the company which holds share in Chola Investment Finance Co Ltd, Chola MS General Insurance and the Risk Advisory Company, Risk Services and Tube Investments of India Limited will be the name of the manufacturing company. After the demerger, some name change approval was required which we have now received. We also needed SEBI approval for us to announce the record date which we have received which means that soon may be in a day or two we will announce the record date which will be seven clear working days of the Bombay Stock Exchange, during which we will do trading of this combined entity as it is traded today will continue. Post that there will be a book closure and



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then allotment of shares in both these companies will happen. I think you all know that for the Rs. 2 face value of each share which is held in Tube Investments of India combined entity, you will get one share each of Rs. 1 in the financial holdings company and the manufacturing entity which is called Tube Investments of India Limited and we believe this process will take some time probably 4 to 5 weeks, after that the individual companies will be listed and this is just for your information. Yesterday, not only the quarterly results of the individual companies were approved by the board but also the annual results of 2016-17 was also approved and now we will have a separate annual report and all this will be posted to the various shareholders from now on before the AGM. This also happened yesterday because our effective date of all this for accounting purposes was 1<sup>st</sup> April 2016.

So with these remarks I would like to get into the manufacturing business site.

Overall if you see that we grew by 6% in the revenue, Rs. 1221 crores versus Rs. 1156 crores in the same quarter last year. PAT was at Rs. 35 crores versus Rs. 43 crores in the Q1.

The overall reduction in the PAT was due to the bicycle business getting affected as well as raw material pricing being higher and not fully recovered during the quarter.

The Board has recommended for a dividend of Rs. 2 per share for FY 2016-17.

Coming to the individual businesses:

Bicycle market continues to be very dull and there has not been much growth during the quarter. We saw a decline of nearly 25% in the market size in the trade. There are two segments, trade as well as the government sector. The government sector is going well with number of governments having many schemes to distribute cycles. We are doing fine there, I think during this year as well we will cross the million bicycles there and probably overall number of cycles remained this year slightly better than even last year but having said that the real action is in the trade where the competition is heavy but at the same time the market is not growing in the last 6 to 7 quarters. Also during the month of June, the dealers concentrated on the GST because they had to destock their inventories and overall, we are seeing that during this quarter, we would see some pickup after these adjustments of stock take place and people settle down on the GST.

While the overall bicycle market did not grow, the performance cycling grew which is basically the high-end or the higher value bicycles costing about Rs. 7000 this year, etc., grew very well and TI did even better than the market in the brands of Rodeo, Montra and the few other International brands.

During the quarter institutional dispatches and the sales through the government, various governments, state government was 2.3 lakh compared to 1 lakh of last year.

Overall, the combined reasons, total decline in this is 11% in volume and 3% in revenue and hence the PBIT was also lower.

Segment wise if we see PBIT during the quarter was lower at Rs. 14 crores against Rs. 23 crores. The plant we set up in Rajpura for production of cycles is ramping up. During the quarter in the month of June, we did achieve a landmark milestone of 1 lakh cycles per month. This will progressively go up. We also completed the closure of Noida during the previous quarter sometime in March. All the balance assets were either used or written-off during the quarter and we do expect that this quarter we will see some revival.

Coming to the Engineering division:

Orderbook was strong. We had a lot of 15% in the domestic business and 11% in the large diameter tubing. Overall, the tubes and strips registered a growth of 2% with exports growing at 26%. Last year, we had a good growth in exports, that growth continues. We did a volume of 5700 tons against 4500 tons the same quarter last year.

There have been some power failures and raw material availability which did affect the volume. We also had a steep steel price increase as during the last quarter of the previous year, so there had to be some recovery of these things done during the year but steel price situation continues to be volatile. The good news on the large diameter tubing business is our quality has stabilized, volume continues to grow year-on-year, for the same quarter we grew by 45% and there has been an improvement in the EBITDA in this business. The capacity utilization thus has also increased. The metal form products which is largely dependent on two-wheelers and passenger cars had reasonably good growth, overall metal formed product registered a growth of 8%. Auto chains grew by 16%, we continued to maintain the leadership in the OEM segment. We also inaugurated an assembly plant the first of its kind in our business, where we outsource the parts in Hosur and we also continued to grow in the fine blanking business where we have been qualified by some of the best names in the seating and transmission systems. Industrial chains also grew during the year and we have also been looking at new orders in exports. We had a good growth in doorframe and we have got source confirmation from some other good auto majors for future products. We have had visits from various customers from overseas for our fine blanking and other businesses looking at the future prospects. Broadly, I would say that this has been the story of the Q1. We also wanted to tell you that the company is stabilizing on the GST implementation. There has been a lot of good work done by our taxation and IT team. Still there are some minor issues but I think we have not had any major impact in terms of invoicing or dispatches on account of the GST. Overall I think the GST rates in the cycles have been pretty close to what we have been paying earlier, it was only a marginal impact. Case of bicycles now we have also looked at and passed on some portion of the benefit to the, major portion of the benefit to the customers. Broadly this is what I have to say and if you people have any questions, I will be very happy to answer.



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- Moderator:** Thank you. We will take the next question from the line of Raunak Shah from SJC Capital, please go ahead. Mr. Shah please go ahead.
- Raunak Shah:** Yes, my question was on the demerger tag line which is very beneficial, thank you for that. Yes, you have already answered that so, good, thank you.
- Moderator:** The next question is from the line of Vipul Shah an individual investor, please go ahead.
- Vipul Shah:** Hi sir, what is the capacity utilization of large dia and what is the EBITDA in this quarter for large dia.
- L. Ramkumar:** I think we have used around 55%, EBITDA is positive.
- Vipul Shah:** EBITDA is positive.
- L. Ramkumar:** Yes, it is positive since last year, it is getting better.
- Vipul Shah:** Okay sir, thank you.
- Moderator:** Thank you. We will take the next question from the line of Kashyap Pujara from Axis Capital, please go ahead.
- Kashyap Pujara:** Mr. Ramkumar just needed some data points as always. If you can just give volumes of bicycles sold this quarter.
- L. Ramkumar:** Bicycles sold this quarter 2017-18, 11.3 lakh.
- Kashyap Pujara:** 11.3 lakh and the same period previous year how much did we sell.
- L. Ramkumar:** 12.68.
- Kashyap Pujara:** 12.68 and within this 11.3, how much would be the government and how much would be trade.
- L. Ramkumar:** 2.3 is government.
- Kashyap Pujara:** 2.3 is government, okay and trade is what you said was actually down 23% and the contribution from the trade is higher than the contribution of government and so is the ROCE because the capital employed would also be lower at the trade side.
- L. Ramkumar:** Trade side, capital employed is quite high.
- K. Mahendra Kumar:** Okay, capital employed is you are right because receivable inventory is high on the other side. You asked all the questions and answered thank you for that.



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- Kashyap Pujara:** No the thing is that the margins that we saw then primarily come down on the cycle was it mainly because of mix or is it also because of the right off that we have done at the Rajpura plant in the current quarter.
- K. Mahendra Kumar:** No, there is no big write-off, see there is also a breakeven right, the volume has to be much more to observe all the fixed cost including the margin, we need to be operating in a much higher level of volume to increase the profits that is the main reason actually.
- Kashyap Pujara:** Sure, fair enough and you know as a commentary you were mentioning that you know you are expecting to turnaround from the coming quarter as GST etc. has stabilized, I mean would that we right understanding.
- L. Ramkumar:** Yes, there is expectation, we will wait and see because somewhere to last few quarters, things have not worked out the way we have expected, the worrying thing is everybody is losing in the industry, so we are taking it all because of GST and other things, demonetization also affected last year, so we are hoping that now everything is behind us, so from now on probably there will be a steady state and market will start looking up.
- Kashyap Pujara:** Okay, could you also share with us that the tonnage on the engineering side, the total tonnage, that would include strips and you know if I were to just look at total tons.
- L. Ramkumar:** I know the calculation through, it is around 62,000.
- Kashyap Pujara:** Okay and when we saw you know while the topline has grown I mean largely because of good volume growth and we are seeing margin compression here, that would and you mentioned you know steep steel price increases etc., but in this business generally you know the prices have passed through with a lag so can we expect that to stand corrected in the coming quarters.
- L. Ramkumar:** There is no big drop, how much is the drop. By and large it has recovered most of it but steel price keep changing every quarters, so that way we would have collected what happened in the last quarter then again it goes up like that.
- Kashyap Pujara:** And of this 62,000 ton how much would be you know you mentioned the large dia which was around 5700 tons, no exports were 5700 tons and how much would be you know the large dia of this.
- L. Ramkumar:** 5,200 tons. Last year same quarter was 3600 tons for the quarter.
- Kashyap Pujara:** Sure, okay and likewise in the metal forming business, I mean typically chains are growing now that is during the replacement or exports or OEMs how any color that you can give.



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- L. Ramkumar:** OEM sales. After market is little affected because of the GST and other things because there are some confusions on the rates plus the dealers are also not getting tuned but OEMs continue to grow.
- Kashyap Pujara:** So just last question, from a perspective of you know on the margins, sir mainly it is you know would we attribute the margins you know softness mainly to the utilizations that we are faced with that we have more capacity and we can do far significant throughputs and that is a key reason that the margins are a bit soft in the current quarter, how would you view that overtime.
- L. Ramkumar:** What you said is true of bicycle. The case of other businesses we are working very close to the capacity, right, so other I would say partly it is the material cost recovery, delay in recovery like that.
- Kashyap Pujara:** Sure, okay.
- L. Ramkumar:** Mix-related issues also. Bicycles definitely there is scope for substantial improvement which will give us a good improvement, overall also for the business.
- Kashyap Pujara:** Mr. Ramkumar, just I will take couple of more questions. In that case you know if you can just give us your view on CAPEX going forward for the current year you know the CAPEX guidance.
- L. Ramkumar:** Around Rs. 200 crores.
- Kashyap Pujara:** Okay, around Rs. 200 crores, so not significant and the interest cost has come up decisively in this quarter, so going forward, I mean could you also give a view on Shanthi Gears because once this is demerged, we will be looking at consolidated numbers of TII and Shanthi Gears.
- L. Ramkumar:** Shanthi Gear has done well during the quarter. We have achieved a good topline growth 22%, we are also having a good order booking, we have order booking rate has been going up.
- K. Mahendra Kumar:** Order booking went up by 40% year-on-year. We have a strong pending order book also.
- L. Ramkumar:** Yes.
- Kashyap Pujara:** Yes, correct. We will move to some more questions, couple of them and then we can end the call. Listen, can we take the next question please.
- Moderator:** Yes, the next question is from the line of Jayesh Gandhi from Birla Sun Life, please go ahead.
- Jayesh Gandhi:** My question regarding Shanthi Gear, what plans there, would you be ultimately merging this manufacturing entity anytime soon.
- L. Ramkumar:** There is no plan as such to do anything like that. We will continue like as a listed company.



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- Jayesh Gandhi:** Okay fine, and my other question was regarding the debt level, so what is the net debt in books as of now I mean post the demerger, what is the plan for debt reduction over the next few years.
- L. Ramkumar:** Rs. 725 crores including the short-term.
- Jayesh Gandhi:** Rs. 725 crores including 300 crores of short-term and what plans will use this in the next few years.
- L. Ramkumar:** We would think our internal cash generation and CAPEX would match. It will not be a significant increase in the debt level.
- Jayesh Gandhi:** Right because in most areas our most you know segments that we operate, we have been running at fairly low utilization at least that is what I gather from the discussion as well as you know my reading, I was wondering whether is there a need to for such large CAPEX in the next two years considering the fact that we have lower utilization in most of the segment.
- L. Ramkumar:** So, I would like to correct your view, our lower utilization is only in bicycle, in almost all the other businesses, we are running to the brim, it will be upwards of 90% utilization.
- Jayesh Gandhi:** Sir, what is the new CAPEX plan, sorry, I missed that number in the next few years.
- L. Ramkumar:** This year, we will do around Rs. 200 crores, next year in all it may be around 150 crores because of that has to be a regular CAPEX also, plus this year we have a plant coming up for expansion of the tube business in North in Punjab, that will be a major CAPEX.
- Jayesh Gandhi:** That is the new relocation from the existing to the new one.
- L. Ramkumar:** No new location, existing plan continues, additional capacity, relocation we will see later because relocation means lot of disruption and all that, more CAPEX also.
- Jayesh Gandhi:** So Rs. 200 crores this year and 150 crores next year.
- L. Ramkumar:** Rs. 150 crores you can take each year.
- Moderator:** The next question is from the line of Raunak Shah from SJC Capital, please go ahead.
- Raunak Shah:** Could you help me with the cash generated from operations on the manufacturing side for FY17.
- L. Ramkumar:** Yes, just a moment, we will give you the numbers. Yes, do you have any other questions which I can, I am just referring to the papers yes to give you that number.



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- Raunak Shah:** Yes, I just wanted to understand the insurance business, will it get better since that is the piece we don't have much, as Chola is obviously listed. Sir, you mentioned that the profitability was little bit weaker 1Q due to higher claim, so just wanted to understand the outlook there a little bit better and also kind of what drove the higher claims and do you see that persisting going forward.
- L. Ramkumar:** Very unfortunately Mr. N. Srinivasan, who handles that business has just left, so we would like to answer this some other time. I don't have a specific answer for it, so I don't want to mislead you, so you have to still write to us or through Axis Bank also, we can answer your questions.
- Raunak Shah:** Sure, no problem.
- L. Ramkumar:** Just hold on, we have to give you the cashflow. It is about Rs. 355 crores for full year last year.
- Raunak Shah:** 355, then what was the CAPEX last year sir.
- L. Ramkumar:** CAPEX was around Rs,155 crores.
- Raunak Shah:** Got it, thank you.
- Moderator:** The next question is from the line of Vipul Shah an individual investor, please go ahead.
- Vipul Shah:** Hi sir, how the debt was split up between TI Financial Holdings and Tube Investments.
- L. Ramkumar:** There is no debt in the TI Financial Holdings.
- Vipul Shah:** Entire debt has come to the manufacturing side, right.
- L. Ramkumar:** Correct, right.
- Moderator:** As there are no further questions, I now hand the conference over to Mr. Kashyap Pujara for the closing comments.
- Kashyap Pujara:** Thank you so much everyone for asking the questions and to the management of Tube for being there today and we hope to host you soon again. Thank you Mr. Ramkumar, Mr. Mahendra and Mr. N. Srinivasan.
- L. Ramkumar:** Thank you all, bye.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of Axis Capital, that concludes today's conference, thank you for joining us and you may now disconnect your lines, thank you.