



“Tube Investments of India Ltd. Q4 FY-12 Earnings Conference Call”

May 2, 2012



MODERATORS: MR. K BALASUBRAMANIAN – CFO, TI
MR. RAJAGOPALAN – TI
MR. FARZAN MADON – ANALYST, ENAM SECURITIES
LIMITED



Tube Investments of India Ltd.
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Moderator

Ladies and gentlemen good day and welcome to the Q4FY12 results conference call of Tube Investments hosted by Enam Securities Private Limited. As a reminder for the duration of the conference, all participants' lines are in the listen only mode and there will be an opportunity for you to ask questions at the end of today presentation. Should you need assistance during the conference call, you may signal for an operator by pressing * and then 0 on your touch tone phone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Farzan Madon of Enam Securities. Thank you and over to you sir.

Farzan Madon

Good afternoon. It's a pleasure to have with us the management of Tube Investments represented by Mr. Balasubramanian, CFO and Mr. Rajgopalan, over to you sir.

K Balasubramanian

Good afternoon every one of you. First of I have to say Mr. Ram Kumar is not available with us. He is traveling preoccupation otherwise he would be glad to have participated in this conference. I just want to give a highlight of we have just concluded the annual accounts.

You all know that quarter three segments in the Tube Investments that we go through segment wise, so it will give a better picture. May be after all the things I will open it for question and answer, we have been saying that the engineering industry as the engineering segment, it highly dependent auto for us the revenue schemes close to 80%. The auto industry growth has been decline quarter-on-quarter so if you look at the overall auto growth of financial year '11-12 compared to the previous year 27%. Within the segments also motorcycle has not grown only 14% compared to the previous year 25% -24%. So in this back drop how our performance have to viewed that's more in terms for the performance of the industry has a whole, if you look at the segment within the engineering division we have two segments one is cold rolled steel strips. We have sold roughly around 75000 tons compared to the last year of 70000 ton which is a growth of 1.2%.

In terms of value, it is 418 crores compared to the previous year of Rs 363 a growth of 15.2%. We are present in tube segment which is the cold drawn welded tubes and ERW tubes, we have grown at 15.4% for the full year in terms of value term, we have grown by 23.2%

In terms of the overall segments which includes our tubewell component as a whole. The segment as a whole we are reporting **1400** crores of each 1000 crore is the tube segment wherein test is around **(Inaudible) 2.59**. It is actually reporting a growth of 21.8%. what has happened the fuel price has been going up steadily and what is happened in Q4 is we are able to negotiate with the various customers and able to get to by and large the increases that's why we were able to overall maintain the margins, I mean there is a small drop as compared to last year of 11.7%, in fact this year 11.1% is EBITDA level. So overall PBIT is around 99.4%, as a system we think we can maintain at this level for it going forward.

The ROCE of this division is high at 31% and we have done a lot of better work in terms of working capital management for this particular segment where as earlier 7% now its is moving to 8.9% in this



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segment. Moving on the next segment is metal form products, so there we have these projects like chain door frames railway product. The chains have done fairly well of all the three quarters and quarter four and then will decline by OEM demand for the replacement market has come down. However, we have done fairly healthy volumes compared to the last year. We are talking about 22% growth over last year and we have done excellent export in this particular division, export has grown 32%.

So overall on the sales revenue, it's close to 500 crores, which is again 23 to 34% growth over last year. In the door sales on the railway segment, door sales because you associate with the passenger cars, we all of us know the passenger car have not being doing well last year and because some of the models, which you have associated particularly Santo and Accent have been weaning off, so our demand for particular model has come down. So overall if you see that which particular segment we have declined that 4.5% compared to the previous year of the 197,000 sets In the railway segment, we are talking about the overall a figure of 150 odd crores, which is very similar to the last year. This segment an overall it is in line with the last year and other than the chain segment, the figure is around 370 odd crores.

So if you look at the EBITDA margin, because it has been volume direction there in the particular door sale as well as railway, because the railways order have come only in the Q4 and we are able to service some quantity there. Overall, we are able to maintain the EBITDA margin of 17.1% in this particular segment and PBIT is 12.1% compared to the previous year 13.1%.

Just move on the bicycle segment. The bicycle segment, the industry is not doing well. We had estimated to be grown at 4% and we have grown by close to 8%, 3% of the industry is the growth volume. So this is actually helped us because the institution volume this year has been fairly good. We have sold roughly closed to 4 lakh 13 thousand bicycles to institutions. As aggregate we are talking about 40.5 lakh for the non-train and 4 lakh for the institution. Actually the overall growth in value terms comes to 9% in terms of the bicycle segment alone. Therefore there are fitness which is sum of 24 crores and other parallax and small exports are there, overall this segment talks about 1280 crores compared to the previous 1114 crores at growth of 15%. You know basically

What has happened during this particular segment is in month of March, the Ministry has increased the excise duty by 1% and the customs duty has been increased. Some of the segments particularly the kids segment some dependency is there on the imports. So which means we are able to pass on most of the things in terms of the excise we are passing 100%. For the customs duty in impact we have closed to 80% we have recovered and 20% we have absorbing at this point of time, but we are looking at operational efficiency is coming through localized some components.

So as we go forward perhaps this will get utilized may be from Q2 onwards. That is on the broad segment wise. If you look at all three segments this is summarizing the overall TI profitability from PBT of 245 crores to the current year as against 241 crores of the last year. This 241 crores of last



year includes 21 crores of exceptional income, so if you exclude this at the EBITDA level, we are grown close to 112%. That's the financial summary for the TI as a whole.

And the business in terms of the subsidiaries Chola and most of them are they have done very extremely well and that is also reflecting in our overall consolidation result. The Chola MS the insurance part of a subsidiary in fact is reporting around 19 crores of PAT this includes the motor pool losses absorbed as 66 crores balance close to 85 crores which we have absorbed which is in line with IRDA guideline which will be observed next two years. The capital adequacy ratio solvency ratio is around 1.33 at this stage and I think with the growth assumption at TI fund close to 35-36 crores. So this is for current financial year to be their growth angle the ratio is supposed to be maintained 1.4-1.5 over a two year period. That's the sum and substance of the growth, but we are slightly confident at this stage because demand are there at this point of time hopefully that this kind of momentum will continue with a likely softening of the interest rates may be in the Q2 on wards things should be much better than what it is.

To sum it up, TI is driving operational efficiencies across all the business. We are going ahead with our CAPEX plan particularly on the large area project and also we are looking at acquisition of land for the Northern plant particularly for the expansion of tube segment and we expect the project cost is close to 500 crores next financial year which may lead to with current debt to equity ratio of 0.7 can move up to 1, that's in broad chain plan open for questions.

Moderator

Participants we will now begin the question and answer session. Anyone who wishes to ask a question, may press * and 1 at this time. If you wish to remove yourself from the question queue, you may press * and 2. Participants are requested to use handsets while asking a question. Anyone who has a question, may press * and 1. Our first question is from the line of Mr. Akhil Jain from Aditya Birla Money, please go ahead.

Akhil Jain

Yeah good afternoon, sorry I am sorry I got disconnected so I missed out on the opening commentary. In the engineering division, we seen 1.6% quarter to quarter rise in the revenue where as the EBIT was grown 25% quarter-on-quarter, so could you share some throw some light as to the reason for it?

K Balasubramanian

It's an EBIT margin you are talking about, is it?

Akhil Jain

I mean yeah, EBITDA has gone 25% where as revenue as gone 1.6%, so what we able to like pass on the rise in input cost that we have seen in the preceding quarter.

K Balasubramanian

The engineering segment, there is always a lag in the recovery of prices because we are trying to deal with the OEM. And it will take the longer time for negotiating because this is the perhaps very long period. We are to recover the fuel price because all the OEMs normally are willing to pass out only the raw material price whereas this time we have taken not only the raw material price plus also fuel cost which is actually, fuel cost as percentage of sales for us is close to 3.5%. So the cost goes up so that's reflecting in our bottom-line. So we have been negotiating with them and they are able to most



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of the customers have now passed it on, has been able to give that because on the reasons and the quarter four that is margin increase also because there is always a volume discount we get at the end of the year from one of the raw material supplier as part of the contract which is also booked in the particular three-four segments.

Akhil Jain

So was is similar for the metal forming division also?

K Balasubramanian

Metal form division in terms of input cost as percentage to sales the raw material is slightly much lower compared to the engineering segment. There basically the mix is what is playing into. Because we are able to do a lot of more of replacing market there in terms still up to third quarters and there the pricing differentiate is there and that is also giving us the benefit. And to be fair to OEM , for the except of one or 1 or 2 OEMs, most of the OEM have also given the raw material price and also there is one aspect which is to be broad reminder quarter four like there was an engineering division where we are talking about quantity discount. Here we get the management fee one of the overseas subsidiary there, which is comes in the quarter four closed to around the 3 crores.

Akhil Jain

Management fees?

K Balasubramanian

Management fee for our overseas subsidiary.

Akhil Jain

Okay, also the revenue from, I am not sure if I heard correctly for the whole year was 150 crores from railway products right?

K Balasubramanian

Correct, close to that yes.

Akhil Jain

And how much was for quarter four roughly?

K Balasubramanian

I don't know we have that number with us.

Akhil Jain

Alright sure.

K Balasubramanian

could be around 45 crores, Q2-Q3 was washout, so yeah. 45 crores is the figure.

Akhil Jain

Another question sir, the non-operating income basically is the dividend from the Cholamandalam subsidiaries, how much was this sir?

K Balasubramanian

Around 22 crores.

Akhil Jain

22 crores.

K Balasubramanian

You are talking about full year?

Akhil Jain

No I am talking about this quarter.



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K Balasubramanian This quarter is 11 crores.

Akhil Jain 11 crores.

K Balasubramanian The total income is 15-16 crores of this 11 is this.

Akhil Jain Okay. Could you, I didn't get the volume numbers like for the tube division?

K Balasubramanian Tube in fact strip, we have sold 75000 tons.

Akhil Jain Strip is 75000.

K Balasubramanian Yeah, that is all external sales.

Akhil Jain Okay.

K Balasubramanian Against the last year 70,000 tons, which is growth of 7.2% and the domestic tubes 127,626 tons against the last year of 110,000 tons a growth of 15%.

Akhil Jain 15% in the tube section.

K Balasubramanian Yeah correct.

Akhil Jain In the tube volumes, okay and sir what is the volume number for door frames and section sets?

K Balasubramanian Door frames, I will just give you. Door frame 10.5 lakh.

Akhil Jain And railway section set?

K Balasubramanian very similar to last year, I am talking about the full year.

Akhil Jain Okay and the cycle volume sir?

K Balasubramanian Totally 44.5.

Akhil Jain Sir the tax rate for this quarter is quite low for the standalone business around 18.7%, so could you throw some light on that?

K Balasubramanian one of course what we discuss already dividend income and another fact the railway turn over for the quarter has helped us because we have some tax benefit super respect to the location we are in. We have a location in Uttarakhand where we do this and we just having a tax benefit so therefore the percentage low to that extent.



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K Balasubramanian This is always there in mind that all the quarter it is actually is reasonably balanced figure. We have always worked out the full year and balancing figure.

Akhil Jain Okay generally you pay higher in the earlier quarter you said.

K Balasubramanian Correct.

Akhil Jain Okay. Sir what is the status on the stainless tube expansion. It was supposed to get commissioned I believe in quarter four.

K Balasubramanian It got commissioned in quarter four and right now the production facilities have got stabilized. Now we have started commenced commercial production, but in the first few months, obviously the volumes are not so high to be stated, but we are having dialogue with the key customers and we have given the samples it is under validation. So from Q2 onwards, we expect the volumes will start ramping up for us.

Akhil Jain Sir which customer industries are you targeting, which industries are you targeting for this..?

K Balasubramanian This is the mainly process industry to some extent and food industry then the other general industries where it is used for architecture, etc., that will be low end.

Akhil Jain Other than auto?

K Balasubramanian Auto to some extent we are planning. Mainly it will be in the power and food industries.

Akhil Jain Okay, how much in the CAPEX have been incurred for this year?

K Balasubramanian 160 odd crores.

Akhil Jain 160, which you talking about engineering or all the three division.

K Balasubramanian Yeah, I am talking about company as a whole.

Akhil Jain 160 crores, I believe your plan was to incur about 200 crores for the engineering division roughly 75 for the metal formed products and 70 crores for the cycle in FY12 sir.

K Balasubramanian Correct, the problem was availability of land both in the north Punjab as well as southern part. only the land has been secured for southern part now which is just still close to around 65 hectares we have bought it all the other registration prospects. We are still trying because getting land contiguous large parcel like which is extremely difficult in India, so anywhere the EBITDA stage you are going in, you are not able to get straight piece of land and no issues behind it.

Akhil Jain Okay so, will that effect our expansion plan than will you defer it for few months?



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K Balasubramanian What we have done is for the large project, we are, it could be delay of three months what we said was from April '13 onwards we are supposed commercialized. Land has been procured and we have already placed the order for plant and machinery so that's all we are planning. It could be the gap of three to four months delay in the project implementation.

Akhil Jain Okay, but?

K Balasubramanian That's right.

Rajagopalan Land for the large dia meter plus the chains.

Akhil Jain So that amount like the CAPEX which is not incurred in FY12 is mostly likely to be spent in FY13?

Rajagopalan Correct, so FY13 that we like to end up 500 odd crores for the next financial year.

Akhil Jain 500 crores is the CAPEX target

Rajagopalan Yeah that's correct

Akhil Jain Thank you sir.

Rajagopalan Thanks bye.

Moderator Our next question is from the line of Ram Modi from Daulat Capital, please go ahead.

Ram Modi Hello good afternoon sir.

K Balasubramanian Good afternoon.

Ram Modi Sir just you mentioned your growth of around 15% volume growth in your tube business, what is the kind of volume you are expecting this year?

K Balasubramanian I was telling you is not linked to the auto. In fact this year, though we have gained some market share compared to currently we are closed to 55% CDW it will be aligned mostly with the auto growth.

Ram Modi Okay and how is our focus on export this segment sir?

K Balasubramanian This segment is not much, I mean we are seeing that there is an opportunity, but it's highly competitive and we are not talking about 500-600 tons per month on steady basis, but there are opportunities. We are not focusing there at this stage because the domestic capacity itself is demand for us. So we are not able to meet all domestic demands. In fact in the month of April we have to add like many tubes to the customers that is the situation we are facing through. So our focus is more of domestic at this stage till all our capacities are in place.



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Ram Modi 27 which is a tube segment growth volume?

K Balasubramanian I can't hear your question properly, can you repeat this.

Ram Modi See we did around 127000 tons in the tube business, how much is CDW and how much is CRW out of this?

K Balasubramanian CDW will be around 78000 tons, balance is CRW.

Ram Modi And sir how is the competitive environment in this industries?

K Balasubramanian Whatever be it we have been performing well, question is we are gained the market share last year. We have to see because some of the foreign players are likely to come only in the next financial year; I am talking about 13 onwards. Okay we have to wait and watch. Of course we are doing a lot of things in terms of value engineering. We are working close with the customers. We are investing heavily in terms of contulant tubes and focusing on tubular components, so giving a well solution and supplying tubes, so that replacing strategy will be there.

Ram Modi Who are the players coming sir?

K Balasubramanian Yeah Sumitomo.

Ram Modi Okay, so are they setting up a capacity or its?

K Balasubramanian It may not be full fledged basis we were even to understand the starting on cold drawn welded the draw which is being brought in immediately initially and then we will have also tubewell also.

Ram Modi Okay and sir lastly on what's our expansion plans in our tube business, you said around 500 crores, how much will go into tube and how much capacity will be created?

K Balasubramanian Close to 180 crores will be for the tube segment, out of the 500 crores.

Ram Modi And I believe that the capacity will be around 36000 tons in Tamil Nadu plant. Is that right?

K Balasubramanian Yeah correct.

Ram Modi Are we looking it to set up in any capacity into west or north market?

K Balasubramanian Our plans are to set up for the tube we are scouting for land and we definitely have plans we will buy land for the particular project in this financial year. May be we will start investing in terms of the building and plant equipment in the next financial year.

Ram Modi: Okay and in the west side of the market?



Rajagopalan we already have in plant.

Ram Modi In Pune.

Rajagopalan Yeah correct.

Ram Modi And how much is that capacity sir”

Rajagopalan It will be 36000 tons.

Ram Modi 36000 tons. Okay sir.

Rajagopalan Total tubes.

Ram Modi Total tube capacity. Okay fine. Thank you.

Rajagopalan Thank you.

Moderator Our next question from the line of Arvind Subramanian from IDFC, please go ahead.

Arvind Subramanian Yeah hi, my question is with regards to the investment in Cholamandalam, there was a recent round of private equity infusion where tube did not participate, going forward up to what extend are you comfortable in terms of diluting our shareholding in Chola?

K Balasubramanian Tough question is answer that we need to grow, my understanding is I found this subsidiary threshold is not breached.

Arvind Subramanian Okay 50-51%.

K Balasubramanian Yeah.

Arvind Subramanian Okay, but then what is the at a policy level what drive this decision as to whether you are going to participate in an equity, because I am guessing the way Chola is growing every year or so they are likely to need equity infusion. I mean what besides whether you will participate or not, is it a pricing call or?

K Balasubramanian The question is, let me answer the question in two parts. There is quite a large investment in the books of TI particularly on the financial year, it is closed to 900 crores. The issue is whether are going to tap it to grow the TI business, yes we are going to do this at what stage? This is not the right time at this stage because TI able to manage the cash flows fairly well at this stage and able to even on this component of slightly more from the current level. (Inaudible)25.49 can be as higher maximum 1:1 that's our philosophy we can't go beyond 1:1. When we talk about the investment into SIDCO because what we think at this point of time is that one financial year. There won't be any requirement



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from SIDCO whereas from the Chola Insurance because of the solvency ratio could be a issue and we may have to pump in 50 odd crores into Chola MS our share could be around 72% around 37 crores. We don't see any major infusion at least for the next one year.

- Arvind Subramanian** Yeah, but I am talking about in terms of the growth plan the way they are.
- K Balasubramanian** I don't have the plan of SIDCO may be when we are meeting Mr. N Srinivasan perhaps we can have a chat on that. That the larger question on hand.
- Arvind Subramanian** Correct. So at a group level has there be any policy in terms of the gross holdings or up to what level you all are comfortable, is there any thought that has been given to that in terms of your?
- K Balasubramanian** There is no across holding into group companies. TI has been promoter of financials they are holding company. status.
- Arvind Subramanian** Okay, alright. I just wanted that. Thank you so much.
- K Balasubramanian** Thank you,
- Moderator** Our next question is from the line Mr. Rajesh Ranganathan from Doric Capital, please go ahead.
- Rajesh Ranganathan** Early you touched on issue of new competition, could you may be explain the landscape of bit more, in terms of your key products broader segment which is say door frames, barriers, chains, and tubes. You have very high market shares. According to your presentation you maintained that for a while. Now where do you see in terms of new competition stress, do you see that from India? Do you see that from foreigners coming up and setting up in India or you see vulnerability amongst certain that in customers specifically that they would like to diversify their sourcing base. Can you give us some understanding of how you are thinking about this?
- K Balasubramanian** Its combination of all what you said. In each of the segments if you look at that the tubes segment the foreign players we are fairly dominant as you have rightly seen 50% on a cold drawn welded tubes. The market is not very large as you see that total 20-23 tons of CDW over 50% market share. The issue is India's growth story what this FII thinking much more than what we ourselves are thinking thereby most of the Japanese are very keen to associates with the Indian companies. Apart from this tube segment actually Sumitomo who is coming he is already competitor to us in one way because they are supplying the front fork tubes where we have the market share of close to 80% in this particular segment. So balance used to sale by Sumitomo. So which means there is a company which is there for 60 odd years. The value engineering and customer satisfaction is a very key thing and we continue to work on that. We are driving operational efficiencies to bring down the cost where there is a competitive situation. So obviously a new player who comes into the system has to take a longer time to catch up in terms of pricing as well the efficiency. Cold drawn is not a simple technology. It may be looking very simple process but constituency of the product which what is what is driving the market share for us. So we will continue to put an emphasis on R&D technology. Our R&D team



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works very closely with the manufacturing R&D team there and we are looking at a lot of substitution for them in terms of their engineering that is how we won competitive environment in particular the tube segment. Whereas in terms of door frames yes, there are very limited players in the segment and there are foreign players have come in. Hyundai brought in foreign player and in fact there are two models, which they are supplying Eon model and one more Verna which they have been supplying but the third model where they are going to replace i10 which is why we are trying to compete with the international players because most of the PPMs what we are talking about delivery particularly in chains and door frames less than 5 ppm and less than 2 ppm kind of situation. The question is we are there in terms of quality standard and we have just in time delivery is happening there. Pricing, specifically we are looking more in terms of operating expenses across the division to sustain this kind of a growth and meet the requirement of the customer. So that is going to be there across all the divisions so keeping eyes and ears open in terms of competitive environment and do a proactive approach and move forward.

Rajesh Ranganathan

When I look at the Japanese supplier base, they are definitely having a push to globalization in the sense that they are setting up factories in Mexico, China, and India as well as you correctly mentioned, are you seeing that there is an accelerated tendency of competition to increase because the Japanese are now setting up factories in India as part of their global strategic plan, as you said there may be even more bullish in India?

K Balasubramanian

Correct, see what we have been seen for last two years I would say that lot of Japanese companies are talking to us per se. Let me be very specific in TI itself in terms of tooling design and there are a lot of companies who want associate with TI as a part of their joint venture program. So very few Japanese companies wants to be on their own, I am not talking about the car manufacturer. There are ancillaries to the car in terms of design, in terms of tooling, those kind of customers who are manufacturers are very keen to come with us and every month we are getting some two or three leads into this and we are also exploring opportunities to form a JV with them because they are very keen to come to India and we would like to participate in the areas which we are not currently working with.

Rajesh Ranganathan

So far you haven't actually done any particular deal and is there any reason why you are hesitant?

K Balasubramanian

We are not hesitant, we are always the cautious company and we take things very, very seriously because JV partnership is not that we want to be a partner for couple of years and we should not have a relationship. We are very careful about the selecting a JV. I have to see how the business opportunity spans out after joining the partner there because we take a longer time in terms of evaluating opportunity because if they do come to India there are various OEMs along with them see where is the buying is there in terms of customer of view which we have done in four or five cases. We are taking a first the lead under we are working on few projects. It may not be a very large size that kind of investment it could be 30-40 crores kind of a situation but the potential which we have about 100 crores for a particular segment which again between the auto space what is happening here. We are evaluating those and may be in year's time there will be some kind of concrete steps on that.



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- Rajesh Ranganathan** And other question I wanted to ask is there was an structural component some of which you make now a days, there has been a change globally over the last 7 to 8 years where more and more is going towards High-tensile steel and therefore that requires different capabilities from the supplier, is that something which is happening in India? How does that affect your business?
- Rajagopalan** That's not very visible in India basically because it's going to be a cost implication for them. So the question is it is evolving and in fact I can tell you hydro form technology which we have and we are one of the very pioneers in the country. The Indian psyche is they want the best technology at the Indian price. Question is technology does not come free so there is a price associated with it. So it will take a longer time for India to migrate that particular level. We don't see it happening in the next three or four years. Though we are associating at the various programs globally in terms of R&D, we are struggling various opportunities in terms of steel, High-tensile as you have rightly pointed out what can be the substitution for the existing product line? We are evaluating keeping ourselves in terms of the knowledge base, yes phase yes they are there, but in terms of reality, in terms of in implementation....
- Rajesh Ranganathan:** Globally they are found it to be a cost reduction rather than a cost increase?
- BalasubramanianL** In India what high reforming I will give you a classic example it is not so because the volumes are less. It is obviously because when you have this kind of a modules, the tooling cost is quite large and this to be awarded over spread of volumes. Because volumes are low obviously the cost per item is going to go up. So the scale is what is making a difference between western world and us.
- Rajesh Ranganathan** okay in terms of competition even though the competition is increasing, I can summarize what you are saying that you don't see it impacting your market share in the next three years, would that be fair statements?
- K Balasubramanian** That is the wish which we want. We are driving towards that. One thing is that competition is not going to keep quite obviously because we are aware of that because we are having a high market shares. Obviously we are doing a lot of things particularly for bicycling. We do a lot of cycling then only cycle selling. So thereby we are doing so many things different from the industries. So we continue to do certain things which will keep our market share quite high. Other thing the competition comes in, there could be a price war and obviously we may dip price I mean price they may bring it down, but ultimately it is the consumer and customer has to be satisfy in terms of the price as well as the service and turn over time of the product. So we are confident of holding on to this market share or slightly improved upon particularly in chain segment because some of the customers which we are currently low, we are working very closely with the OEMs and R&D there. We are confident that the market shares in the chain segment also can improve. Overall we are saying we are trying to maintain and improve of upon.
- Rajesh Ranganathan:** The other way of mitigating that over the medium term because if you assume that inevitably you will lose some share despite everything is to increase the content per car. Can you give me some



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understanding of where you are today and what's your target say in the next three to five years and how you are going to achieve that?

K Balasubramanian I am not clear about the content per care means you are talking about the tonnage?

Rajesh Ranganathan In terms of the part that you are supplying in terms of value?

K Balasubramanian Very negligible.

Rajesh Ranganathan In terms of your strategy of how you want to increase that going forward.

K Balasubramanian Today one of the things in particularly the chain segment, the metal compounds the fine blank components which we make is the one which is close to 100 crores today of which we are trying to focus on more in terms of four wheeler which is closed to seatbelt those kind of customers. There a lot of focus there. There are a lot of opportunities in the four wheeler because as you have rightly said these Japanese are coming in, Europeans have come in. so obviously they are looking at opportunities and looking at bringing the new products per se, but another good opportunity for us to apart from gaining the market share. We don't have the particular number in mind in terms of where we want to position ourselves, but one thing is that we don't want to miss any opportunity.

Rajesh Ranganathan Okay, thank you so much.

K Balasubramanian Thanks bye.

Moderator Our next question is from the line of Ramanan Laxminarayanan from Catamaran, please go ahead.

Ramanan Laxminarayanan I just have one question on your metal form products, what's your revenue distribution between door frames and railway wagons with respect to the other component chain and in terms of profitability also, what is the contribution of door frame/railway wagon to change?

K Balasubramanian Profitability we don't give being competitive intensity in the segment. But turnover in fact I communicated close to 370 odd crores is the revenue for the door frames and the railway products of which 370 crores includes railways of 150 crores and the balance is all chains and fine blank components.

Ramanan Laxminarayanan And within chains what is the split between exports?

K Balasubramanian Export is closed to 90-95 crores.

Ramanan Laxminarayanan Okay and in the door frames, you mentioned that there is some kind of flattening in demand due to somehow the models which you have mentioned, I think Hyundai and Maruti right? So what are the current customers you are actually supplying to and where and which of those you have a 100% market?



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- K Balasubramanian** Whatever let us say the principle of the door frames, there will be only one customer, one vendor for one model. Okay so whatever Hyundai, which is one of our large customers for the door frame. We supply for Santro, we supply for earlier version of Ascent and we supplied for the earlier version of Verna. The other i10-i20, we don't supply the door frame because it does not contain door frames, it contains door sashes, but the value per car would come down to that extent, so they are unique to us. As I was telling the previous participants we have lost the market share more for the Eon and Verna and we are guiding the door frames for the new models which is coming in 2013 the replacement of i10.
- Ramanan Laxminarayanan** And what about the other one such as the LCVs, such as the Mahindra?
- K Balasubramanian** Mahindra we supply the door frames specifically with Maximo model that is the 100% market share for us and obviously Tata Nano and Indica door frames are coming from us.
- Ramanan Laxminarayanan** What about Tata Ace?
- K Balasubramanian** Tata Ace, no it doesn't contain. It is pressed one.
- Ramanan Laxminarayanan** And just to understand at what stage of R&Ds that the company decides to go for formed or a pressed thing?
- K Balasubramanian** Whenever the design change of the OEMs. I think we explained to you in one-on-one meeting also. So we cannot like what we did for the Tata Motors, obviously they came to us because we being an engineering company they came to us as a part of customer complaint that lot of noise is coming into the car, noise and dust as well as the waters is coming into the car. We told them it could be because of door frame and worked with them and they moved from pressed to our cold rolled sections.
- Ramanan Laxminarayanan** Thank you
- K Balasubramanian** Thank you.
- Moderator** Our next question is from the line of Mr. Kaushik Podar from K B capital, please go ahead.
- Kaushik Podar** See I am just trying to understand from the risk perspective when you are saying the automobile industry is on the down side, demand is coming down and at that point of time we are going for this 500 crore of expansion, as you said 80% of the fortune of the company dependent of auto industry, are not you doing your expansion at the wrong time, I mean if you can give me a sense on that?
- K Balasubramanian** The decline do you believe it is going to be permanent in nature? Do you think the decline in auto is going to be permanent in nature?
- Kaushik Podar** But see that growth for example in passenger car, which used to be say 15% that has come down to 8% or 10%. So I mean that is what automobile sector.....



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- K Balasubramanian** See the question is in fact to complete the investment takes one and one and a half year for us and also we are investing out of the 500 crores closed to 250 crores not in the auto sector. We are investing in the large dia products, which is non-auto application.
- Kaushik Podar** For that who is the end customer for this large diameter pipes?
- K Balasubramanian** That's for hydraulic cylinder predominantly.
- Kaushik Podar** Okay and industry wise?
- K Balasubramanian** It is for the bumpers and hydraulic and the tube manufacture per se infrastructure obligation.
- Kaushik Podar** Okay and rest of the other 250 crores we are spending on?
- K Balasubramanian** That's would be in the chain expansion capacity. Because chain capacities are filled up now as well as fine blank. As I was telling you that the fine blanking there is a lot of opportunities for us so we are going to invest there in fine blank as well and since I was telling you about the new model which is come from the T&S for the door frames that we should start investing now close to 125-30 crores.
- Kaushik Podar** Okay sir just give me the breakup of this 500 crores, 250 crores is for large dia and how much is for chains?
- K Balasubramanian** Chains could be in the reason of roughly around 130 odd crores.
- Kaushik Podar** Okay and the rest 120?
- K Balasubramanian** Cycles should be around 50-60 crores would be there because we have to buy a land for....
- Kaushik Podar** 50 crores is for what you said?
- K Balasubramanian** For metal formed products, that is the door frame I am talking about.
- Kaushik Podar** For new car model. And another 50-60 crores will be for the cycle.
- K Balasubramanian** There will be some replacement CAPEX across various divisions plus the bicycles we need to have some sort of capacity expansion in North.
- Kaushik Podar** Okay. That's fine. Thanks.
- K Balasubramanian** Thanks.
- Moderator** Our next question is from the line of Dhaval Shah from Morgan Stanley, please go ahead.



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Dhaval Shah Yeah good afternoon sir.

K Balasubramanian Good afternoon.

Dhaval Shah One question that we have on the margin in terms of the engineering business for a long term basis. In quarter we have seen a phenomenal comeback in terms of margins and last three years now we are at about 9% level. On a long term basis, would that 9% plus would be sustainable margin considering the product profile that you are having and also large dia I presume would be at a higher margin.

K Balasubramanian As for these existing tube products, 9% we are expecting to sustain. Large dia as high end definitely as you rightly pointed out it will be a better margin than MTI so as we for taper tubes so there will be overall mix improve the margins will go up.

Dhaval Shah Another one which is there on the railway wagon, what is the visibility for FY13?

K Balasubramanian It is a very difficult question to answer. As of now there are some orders we are able to next few quarter we have some 40-50 crores of orders available on hand. So if you see because the railways suddenly they release bunch of orders and leave it. That is the tough call. I am not able to say because we are hoping that the same kind of a volume can be generated next year also. That is our internal target.

Dhaval Shah Right because we are at 3200 odd products now in terms of size now for last three years.

K Balasubramanian I don't think because there will be competition. There will be pricing pressure so I am saying close to 150 odd crores is what we are adding. I don't think we are going to increase in the next financial year beyond this particular. This is our estimation at this stage.

Dhaval Shah And one more thing you mentioned was that 3 crore is the income which has come from the subsidiary, which is actually in chain would that be an item which would have occurred in Q4 of last year also?

K Balasubramanian The volumes, these are true, but the figure was only 1 crore last year.

Dhaval Shah So versus 1 crores it is the 3 crores income now.

K Balasubramanian Yes.

Dhaval Shah Okay and minus that actually margins would have got impacted?

K Balasubramanian Yeah. Correct.

Dhaval Shah Last one on the cycles part, what is the outlook you mentioned in terms of trying to say that very challenging environment for ability to sustain margin, but again on the longer term basis, three year



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basis, will it 6 to 7% margin be sustainable or that's look difficult? Because you know couple of years back we were at 4% kind of level. Last two years we have actually been at 7% kind of level. I wanted to understand whether those 7% kind of margin levels was an exceptional which again today we are at 5.8, will be that go back to that 4% kind of a number or ?

K Balasubramanian

It won't go back to that level. We are wanting position ourselves somewhere in between 6-7%. The question is how the Hero joins hand with us. In fact they are the spoilers because we absorbed most of the input cost increases even today I don't want to name the competition. They are willing to give some schemes when there is a demand there because generally April to August which is the season for some of the segments. The industry is not growing at typically as one could foresee. So they are trying to introduce some kind of incentives as part of schemes to improve their sales. We don't bring that kind of culture because we believe that there is a pull for mass, for the brand and for the product per se and do a lot of marketing in terms of the cycling. We recently conducted cyclothon in Chennai which really drew a lot of attention in media. So we are trying to bring cycling as a concept to pulling the market. And this is going to help the competition also. The demand is for bicycle, the industry is not growing very effectively as the auto.

Dhaval Shah

Yeah actually and in fact we have been able to maintain double than the industry growth rate in terms of the volume number that is commendable right now. Thank you sir.

K Balasubramanian

Thank you.

Moderator

Our next question is from the line of Nirag Shah from Exemplar Investment, please go ahead.

Nirag Shah

I had a couple of queries regarding the automotive chain segment. What was regarding market demand given the backdrop of moderation in two wheeler industry growth that we are seeing, do you feel that increased capacities that are coming up of yours and your peers to the extent of 30 to 50% in FY13, can get absorbed by the market without affecting margin?

K Balasubramanian

Again I am telling you, we are creating capacity now means capacity will be completed in one year's time. What we have seen is the Q4 phenomena in terms of more replacement market, the volumes have come down. It's not just evolving demand per se. The replacement market is come down for the OEMs. So that could be because of the stocking positions of the OEMs over a period of time and that has corrected. Replacement has to happen for a consumer product like motorcycles. So we believe that may be one or two quarter lag they will come back into action. So we have seen that creating capacity in the long haul is going to be benefit today because getting a land is difficult, creating capacity is more difficult. If we miss the bus we are going to miss an opportunity and cost is going to go up. Because capacity today is close to 100%, 80-90% there so we can't operate the plants like that. We have to have some kind of leeway on capacities. As I was telling you the other participants that we see an opportunity in exports particularly in tubes, we are not starting that. So there could be many opportunities like that. We have to have some kind of leeway on capacity. As I was telling you the other participants that we see an opportunity in exports particularly in tubes we are not starting that.



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So there could be many opportunities like that. We are going to build capacities in ahead of the market demand and create and work on that.

- Nirag Shah** Okay and out of your overall 500 crores chain segment in FY12, how much the automotive chain contribute and what is the year on year growth pertain by automotive chain in volumes as well as value terms in FY12?
- K Balasubramanian** Out of the 500 crores automotive chain should be in the region of close to 300 crores.
- Nirag Shah** 300 crores and what is the YOY growth in terms of value and volume?
- K Balasubramanian** I mean it is very difficult to say value terms could be in the region of close to 16%.
- Nirav Shah** Okay and volume is 14% right?
- K Balasubramanian** Yes. Because volume is again chain, it could be on the replacement so there is the combination of that so each element there could be variation. The overall I am saying.
- Nirag Shah** Okay and out of this 300 crore revenue, what is the share of OEM in replacement market?
- K Balasubramanian** Predominantly it was OEM, because OEM takes kind of replacement.
- Nirag Shah** Okay and this moderation in growth that we have seen in automotive chain segment this year is mainly because of capacity constraint that you are facing or is some other issues there?
- K Balasubramanian** I am not clear what the question is, can you repeat.
- Nirag Shah** Normally you have grown ahead of industry, so this year two-wheeler industry has gone by around 14.2% and you also seem to have grown in value terms around 15-16% only. So is it because of capacity constraint as you have seen?
- K Balasubramanian** That's true because we are adding capacities only now. So we have lost the opportunities.
- Nirag Shah** Okay new capacities will be coming up by Q3.
- K Balasubramanian** By mid of this financial year.
- Nirag Shah** Okay thank you.
- K Balasubramanian** Q3.
- Nirag Shah** Thanks.



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Moderator Our next question is from the line of Ram Modi from Dolat Capital, please go ahead.

Ram Modi Hello, sir just wanted to know out of this 250 crores on a large dia tube expansion, how much would be the dia base what we are looking at hydraulic cylinder will be?

K Balasubramanian You are talking about the dia meter?

Ram Modi The large dia which you talked about according to have a better margins.

K Balasubramanian I will get you that number because we are trying to open. I am not able to recall the number.

Ram Modi Okay so this 250 crores will include 180 crores for our 36 CDW tubes also?

K Balasubramanian What is that?

Ram Modi This 250 crores large dia includes that 180 crores which you are spending for tubes?

K Balasubramanian Correct yeah it includes.

Ram Modi Okay sir thank you.

Moderator Our next question is from the line of Akshay Shah from Quest Investments, please go ahead.

Akshay Shah Yeah sir, just one clarification you have been saying CAPEX 160 crores that will be in FY12 it was or it has been in FY13.

K Balasubramanian 160 crores is what we have incurred so for in FY12.

Akshay Shah Okay it is FY12

K Balasubramanian Yeah correct.

Akshay Shah And this 500 crores you have been saying out of which 250 crores is on large diameter tubes and all so that will be in this FY13 only or it is over FY13, '14, '15?

K Balasubramanian It will be FY12-13 only.

Akshay Shah It will be 12-13.

K Balasubramanian Yeah

Akshay Shah So out of 500 crores, 160 you will deduct so balance is about...



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- K Balasubramanian** No the question is see 160 is not only the large dia we are going to invest there could be other replacement CAPEX also so don't assume that every is the large dia.
- Akshay Shah** So in short, for my model purpose I should take 500 crore between FY13-14 combine together?
- K Balasubramanian** Yeah.
- Akshay Shah** And FY12 was 160 crore, which you actually spent.
- K Balasubramanian** Correct.
- Akshay Shah** But that is not getting reflecting in what balance sheet you have given.
- K Balasubramanian** They fall in the advances. Some close to **140** odd crores there in advances. Actually we have incurred 120 crores. We are capitalizing 120 crores.
- Akshay Shah** So here you are showing 580.
- K Balasubramanian** That is depreciation no.
- Akshay Shah** It is a net value, 580 and 644 and you are saying that certain things are lying in short term loans and advances.
- K Balasubramanian** Correct.
- Akshay Shah** Okay thank you.
- K Balasubramanian** Thank you.
- Moderator** As there are no further questions with that we conclude the conference.
- Farzan Madon** Thank you everybody for standing by. Thank you Mr. Bala for joining us.
- K Balasubramanian** Thanks.