



“Tube Investments of India Limited Conference Call”

May 06, 2013



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Moderator: Ladies and gentlemen good day and welcome to the Tube Investments Q4 FY13 Results Conference Call hosted by Axis Capital Limited. As a reminder for the duration of the conference all participants' line are in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I would now like to hand over the conference over to Mr. Farzan Madon. Thank you and over to you Sir.

Farzan Madon: Good afternoon everybody. Thank you for being on the call. We are grateful to have with us the management of Tube Investments, represented by Mr. L. Ramkumar, the Managing Director, and Mr. K Balasubramanian. Over to you Sir.

L. Ramkumar: Good afternoon and thank you very much to all of you for taking time off to attend this investor call. As you know, the published results of Tube Investments of India standalone were done in the last week.

Our sales during the quarter compared to the same quarter last year went down by 10% and on a year-on-year basis we ended the year at -2.4% on the sales revenue. On the profit from operations before other income and finance cost etc., we were down 49% compared to the same quarter last year and 26% year-on-year. The finance cost was higher during the year. We ended up the year at nearly 28 to 30 Crores more than last year on the finance charges. While we did have a fairly good control on networking capital, we did incur capital expenditure during the year and we also had made some investments in new ventures etc. The bottomline is that the profit before tax we are down compared to last year by 42%.

I will quickly take you through division wise or segment wise how we did on the standalone Company. The first division is cycles and components. You must be seeing a marginal figure of PBIT. The reasons are twofold. One is there has been a drop in the volume during this Q4 we have seen after the first half of the year we have seen slowdown in the growth especially in the Northern regions in the standard segment this has also impacted the special segment. The drop in the special is less than the drop in the standard segment. This meant that we did loose some profits mainly because of volume.

Added to this couple of things happened, we took a view. We found that the BSA Motors, the e-scooters have been going slow and the market acceptance was not so good, hence we wanted to be conservative in terms of writing down the inventories and also providing them at a much lower value, which we think is realizable going forward. This meant that we had to provide for some of the stocks as well as we also had venture overseas to buy the parts



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for e-scooters or bicycles again there was a lot of increase in duty in imports on the bicycle components during the previous year. Hence we almost brought down the imports to zero. This meant that the establishment we had overseas also had to be wound up, which is what we took a beating in Q3. So overall if you see this year has taken a beating or something like 8 Crores on account of BSA, on account of these provisions and 5 Crores on account of bicycles.

Again in the case of bicycles due to sluggish nature of the market plus we also had some bicycles with imported components at the higher price. We had to write down the value or dispose of at a discount. So the onetime hit on account of this is around 13 Crores during the year, apart from 4 Crores of write offs we provided on the Chinese venture. So the balance is largely due to volume. So if people are asking there is one-time impact as far as bicycle is concerned. Volumes we see a pickup as we see the current year and we should see the final results by end of the first quarter.

In the engineering division, we had not seen a very serious drop though there has been a drop in the auto industry to which this is largely linked. So during the quarter we did drop marginally 2% to 3% in tubes and strips in the domestic market. Overall year itself we landed up 2% to 3% lower in terms of volume while in the case of value there is a small growth of 1% over last year. There has been an impact of power cut in this business, because largely situated in Tamil Nadu and it is also fairly power intensive, but we have been trying to offset some of these things through operating efficiencies. So overall during the year we have had some impact due to cost increases on account of power cut, diesel price increase, we were not able to pass on entirely all the increases to customers, though we could pass on something like 50% to 60%.

Going forward the fortunes of this business is linked to the auto industry. Every endeavor is being made to increase the market share, because we are still large player in each of the segments we cater to and we also have a wide range of products. We believe through better servicing, and better quality. We should be able to get a better share going forward. We have also in order to derisk from auto industry as we have been saying. We have commenced the construction of the plant near Chennai for making up the large diameter tubing, which is going to be catering to the infrastructure industry.

That brings me to the metal-formed products, which consist of chains, as well as doorframes, and railway products. In the chains again largely the chains excepting for the industrial chains, sold to the automotive industry in the two-wheeler segment. Two-wheeler segment for the first year became slower in terms of growth and this has definitely affected



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our volume. It is not as high as we expected. So during the year the auto chain volumes was almost close to the last years. It is not very different, whereas in the industrial chains, significant portion of our sales has been coming from the overseas markets and we had a slower growth in the second half. In fact there must been a drop in the volume in the second half and hence the industrial chains were affected.

We continue to do well in the fine blank components which cater to largely the two-wheeler and more and more four-wheeler, where we did get some new programs approved as part of the import substitution projects of the various passenger car manufactures. Here we grew 30% in terms of volume and in terms of value in this overall chains and fine blanking we grew by about marginal 3% to 3.5%.

The doorframes again were linked to passenger cars. Hyundai is the major customer for us we did well there and so it was not a big drop there. As far as other customers who buy doorframes from us there has been a major drop be at Maruti, or TATAs and the major hit we got in this segment was from railways where there has been a lot of hesitation from the government or there has been delays in releasing orders and even after releasing orders the wagon manufactures were not able to pickup the kind of volume they should and then there was a huge drop in prices.

In terms of value this segment alone dropped by 42% during the current year. Going forward we are going to be very cautious in this segment we are going to we had built-up inventories during the last year anticipating orders. I am glad to say that over the last six months concerted efforts have been taken not to buy further inventory and take orders based on the inventory we have and also now order only such inventories as required after getting the order and being fairly sure of deliveries. So the inventories and working capital in this division over the last one year has come down. Going forward we will only evaluate the orders based on the prices and we would not take much advance action anticipating orders in margins, that way we would think that we will derisk the kind of drop in profits which has happened in this particular segment.

Overall, this is what has affected the profitability of this division of metal form products. I would say the chains and fine blanking have been fairly flat in terms of profits but the major drop had come from the railway segment, which has impact at the bottomline, which you see here. This is broadly the picture as far as the various divisions of Tube Investments of India are concerned. Wherever we had thought of expansion, we still have the plans. I am glad to say that we have the land required for expansion of chains, of tubes, of bicycles, be it in the south or north or wherever that process has been completed during the last year.



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However we would wait and watch before we actually order further equipment and go ahead with the expansion plans, given the current situation the OEMs themselves are not very sure about how it will pan out during the rest of the year. We are well geared up to meet the current demand and also we are working on number of programs in the areas of operational excellence in order to bring down our cost of production and improve our service levels.

Having said this as far as the consolidated TI is concerned you must have seen the results. Cholamandalam Finance has done exceedingly well and there has been a significant improvement in their disbursements, profitability everything. The profit after tax for the full year is at 307 Crores as against 173 Crores. Similarly the insurance, which is also a subsidiary of the company where we hold 74% significantly, improved its profitability during the year.

During the year their profit went up to 60 Crores as against 19 Crores last year profit after tax after providing for motor pool losses at 22.6 Crores. So, broadly this is the picture and going forward, we believe that the business conditions look a little uncertain but we are leaders, our people having large market share in various businesses so we are concentrating on better service and tight control on cost in working capital in order to hold on during this period at the same time look at an opportune movement to expand or get into new businesses as and when we see the opportunity in the environment.

So this is all what I have to say and I should be very glad to take on any questions. Before I wind up you have heard about Shanti Gears. As you know we have 70% now and in the last quarter, we did a sale of 37 Crores and the profit which we have shown here is also impacted by one-time provision of certain amounts, which is because of our takeover and relooks at the various policies etc. I am glad to tell you that the order load in this business has improved substantially and now we are streamlining the production in order to cater to this order load. We have revisited all the major customers who in between had walked away because the Shanti Gears, was not able to service they are all coming back to us very gladly and we are focusing on two or three segments namely steel, cement, off-highway and sugar industry and going forward I definitely see very a promising future in the coming quarters. Thank you.

Moderator:

Thank you very much Sir. We will now begin the question and answer session. We are going to take our first question from the line of Farzan Madon from Axis Capital. Please go ahead Sir.



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- Farzan Madon:** Sir regarding the debt situation could you just tell us what is the total short-term and long-term debt would be?
- L. Ramkumar:** The short-term is around 300 Crores. The long-term is around 982 Crores.
- Farzan Madon:** And that will increase marginally I guess by another 200 – 300 Crores over the next year or so?
- L. Ramkumar:** It may not happen there because our internal accruals, we expect to be quite strong as what it has happened in the current fiscal. So there are some kind of repayments of loans has to happen of close to 300 Crores this fiscal. So which will be taken and put together with the capex of close to 200 to 250 Crores of this 2013-14, so we will have to look at, the debt equity levels will broadly be the same was slightly be improving in terms of the vertically on the short-term working capital process.
- Farzan Madon:** Great, in terms of the autos where do you all see the situation, I mean do you all see the sector turning back with the 10% volume growth or how is it?
- L. Ramkumar:** No idea. At the moment we think that there is no drop and at least last years volumes are maintained. Quarter-on-quarter we are reviewing and we still not seeing any sign, so the double-digit growth as such. Specific models could do well but overall industry we are not getting a sense that this is going to grow like that.
- Farzan Madon:** My last question is regarding the volumes, could you just tell us as to the number of cycles we sold I think it is 4 million for the year, and for tubes that could be?
- L. Ramkumar:** Yes, cycles we did sell 4.1 you can say.
- Farzan Madon:** And for tubes what could be the tonnage be?
- L. Ramkumar:** Total tubes tonnage almost as same as last year 134000 tonnes.
- Farzan Madon:** All right and doorframes again would be slightly lower.
- L. Ramkumar:** Doorframes are lower by 10%.
- Farzan Madon:** That is it from my side, thank you.



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Moderator: Thank you. We are going to take our next question from the line of Gautam Chhaochharia from UBS Securities. Please go ahead.

Gautam Chhaochharia: Good afternoon. Few questions first to begin with can you elaborate on the Shanti Gears ramp up as to where we are and what is the outlook for the coming year?

L. Ramkumar: Outlook for the coming year we are looking at definitely a growth compared to what we did last year. I am not able to put a percentage but the potential is very, very encouraging in terms of the orders we are getting and many customers who were not there are coming back to us and the team is also working on some new range of gearboxes at a lower cost with better talk and all that, so few things which we have done in the last few months have received excellent response from the customers.

Gautam Chhaochharia: And do you see margin pressure there also like in the TI or does not been felt there?

L. Ramkumar: Margin in a way in the nonstandard the margin pressure will be less compared to TI. Because every order has got a pricing I would think the pressure should be less but nevertheless there will be some pressure because of the market conditions it is not the overall market is growing like that but I think relatively should be definitely less.

Gautam Chhaochharia: Okay and on the general insurance part of the business can you give us some details as to what is the numbers for March 31 in terms of the investments and the numbers for this year and how does that look next year?

L. Ramkumar: Gross return premium went up from 15 billion from 1505 Crores to 1652 Crores and the investment income you want to know that is 98.7 Crores to 170 Crores last year is 98.7 12-13 is 170 Crores, the operating PBT went up from 15.5 Crores to 89 Crores, net of tax is what I told you 19.3 to 60 Crores.

Gautam Chhaochharia: Okay just operating parameters and trends, which you saw this year is likely to with the period next year also?

L. Ramkumar: Yes definitely it is in terms of various ratios and all that so it is definitely expected to, we maintained our improved.

Gautam Chhaochharia: And it has a growth outlook and market share positioning there?

L. Ramkumar: I think we have growth pretty fast last year I think we are one of the fastest growth and we are continuing to grow and the aim is to improve the market shares.



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- Gautam Chhaochharia:** And what is the amount invested and did you invest anything in FY'13 in that business?
- L. Ramkumar:** 35 Crores we did. TI invested 35 Crores.
- Gautam Chhaochharia:** So what is the total number right now on the books?
- Speaker:** Total investments should be around close to 300 Crores.
- Gautam Chhaochharia:** And any plans there to change to increase stakes etc., or just a status quo there? Stake, which you have there any plans to increase it or dilute it?
- L. Ramkumar:** I think we will maintain the same stake dilution. I do not know is also policy driven probably.
- Gautam Chhaochharia:** Now going back to the TI's standalone business as can you elaborate on the 200 to 250 Crores of capex, which you plan for this year and which one that the one which will not touching this year at all?
- L. Ramkumar:** Basically the bulk of the capex, which we are going to spend for the current fiscal will be on (indiscernible) 19.56 project investments we already made for large diameter. We are talking about roughly 50 Crores are spent with the current financial year, the year passed by and another 150-odd Crores is expected to be invested in 2013-14. That is the bulk of it. Rest of it is in terms of replacement capex or more of cost saving measures.
- Gautam Chhaochharia:** Which is the project, which we have put up for backburner for now, which you are talking about last year?
- Ramkumar:** For example, we would have expanded on chains. We would have expanded tubes also in northern regions, so what we do now, the automotive tubes, these we have put on hold, there is not too much of a backburner. Well all the customer's have told us we are about the line. That is good news really. So now typically in these businesses the lead-time for getting equipments is nine to 12 months. So maybe we can start construction and then they would arrive to take decisions, but generally we are not seeing a traction in terms of people saying to build up capacity and all that. Even OEMs are saying you wait and watch. So we said we would rather wait.
- Gautam Chhaochharia:** On the large diameter business any change in outlook or you have seen some moderation there also versus when you started out a year back?



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- Ramkumar:** We have tried to revalidate in the last three months since we started the construction and all that because now there is no real money on the ground. We are quite encouraged by the numbers after the validations because it is basically an import substitution kind of a project, and this is done based on the two to three year back volume and it is an import substitution, so you know there is some pricing parity and all we expect would compensate some of these things. Broadly we feel there is no need to be of great concern in terms of the viability we thought of it earlier.
- Gautam Chhaochharia:** Broadly across these three businesses do you think in your view again no one knows about the recovery part, but in terms of the margins front at least the 4Q was the worst or you see potentially more pressure from here on?
- Ramkumar:** Maybe 4Q because so long as steel prices do not increase though people are asking for some increase we believe even if the increase happens now in the second half, the total pricing will come down, because there is an excess supply and there is not going to be much demand. So, steel is a major thing that affects us. As far as power is concerned, already we have taken a big beating. It is in the base in terms of power cut, if at all the Tamil Nadu is promising better things. Even if it does not become worse, the cost structure will not get worst affected. So, I think we would not have any more major beating because fuel prices are also stabilizing. For a change sometimes we see some Re.0.50 or Re.1 reduction these days instead of Rs.5 or Rs.6 increase like that. So I think we will take one of the worst hit in terms of fuel, power, and some steel increase and not as much as it happened two to three years back. So, I presume it will stabilize because the volumes are not going up really.
- Gautam Chhaochharia:** But are you seeing the OEMs or your customers willing to give you benefit of these cost pressure in terms of willing to give you some price hikes?
- Ramkumar:** As you know this depends on bargaining, how critical you are and so it is a mixed bag. It is a very standard products and maybe difficult in all that. We keep trying. In some of these our strike rate is 50% to 60%.
- Gautam Chhaochharia:** Got it. Thank you Sir.
- Moderator:** Thank you. We are going to take our next question from the line of MS. Chellappa from Pari Washington Advisors. Please go ahead.
- MS Chellappa:** Good afternoon. I wanted to know whether you are planning any capex in Shanti Gears?



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- Ramkumar:** Not of a significant nature during the current year. Some minor capex because we are still in the mode of accessing capacities, which we believe is far higher than the kind of level of activity we are having now. After this year we may look at specific investments based on the sectors where we may need some, otherwise it is not significant.
- MS Chellappa:** Thank you.
- Moderator:** Thank you. We are going to take a follow-up question from the line of Farzan Madon from Axis Capital. Please go ahead.
- Farzan Madon:** Sir, this is in regards to the cycle division. You said that you all have stopped importing from China. So, does that mean that we have started indigenizing the cycles? We have started manufacturing them?
- Ramkumar:** We have completely indigenized during the last year.
- Farzan Madon:** So, the production facilities are up in running and everything is now on stream?
- Ramkumar:** We already had some production going on, now we have substantially increased. Wherever this is a requirement we have developed the components with the vendors also.
- Farzan Madon:** Does that mean that we are back to around 5% EBIT margins, which we were doing earlier?
- Ramkumar:** I do not want to give you the percentage but definitely there is a cost reduction by indigenization and there will also be a better pricing to the customer compared to the last year and some of the models which we used to import because we are importing at a high price, high duty and high exchange rates, benefit of that has been passed on in the last quarter. So both should have a favorable impact on both the sales and margins.
- Farzan Madon:** Thank you.
- Moderator:** Thank you. We are going to take our question from the line of Kamallesh Kotak from Asian Market Securities. Please go ahead.
- Kamallesh Kotak:** Good afternoon Sir. Sir, wanted to understand your thought about the finance business? How you see the outlook for that and any plans for banking business as such?
- Ramkumar:** I think we are planning for a continuous growth in the financial services business. We have been opening more branches. We are also getting good response from customers wherever



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we open. As regards banking we have not yet or the group has not taken a call whether we should get into banking or not. We are still studying it and it is under consideration.

Kamalesh Kotak: Sir within that finance business-growing do you see any certain segments which are showing some weakening trends or some subsegments which are showing strong growth. How do you see the overall things in terms of verticals within business?

Ramkumar: As you know the largest vertical is the vehicle finance of new vehicles and used vehicles. Despite degrowth in the commercial vehicle segment in the last year, we have grown the advances and loans we have made to this sector. We still believe there is an untapped potential in certain geographies, where we are not present. To that extent, I think we will have a growth. We have also done fairly well on the home equity segment. As you know we finance people based on the security of their residential property. This business has also grown well during the last year. Basically these are the main, I would say the verticals, which contribute to others, and we just started something on small housing loans and all that. We are yet to pickup. We are still in the process of learning how to do this.

Kamalesh Kotak: Sir, within that vehicles particularly the commercial vehicles do you see any kind of a stress on any segments or how the transport operators are looking at growing the freight, and how the overall environment is panning out?

Ramkumar: I do not know. One-way is to look at how they pay etc., so I think generally the delinquency has not been anything significantly higher. Maybe one or two sectors but I think generally it has not been there and we are also fairly cautious in terms of selecting the kind of people to whom we should give the loans.

Kamalesh Kotak: Thanks.

Moderator: Thank you. We are going to take our next question from the line of Bhagyesh Kagalkar from HDFC Mutual Fund. Please go ahead.

Bhagyesh Kagalkar: Good afternoon Sir. Can you just repeat what was the capex number for FY'13?

Ramkumar: 218.

Bhagyesh Kagalkar: The total amount spent on Shanti, now the full amount including all the fees?

Ramkumar: 460 Crores without capex. Capex is separate.



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- Bhagyesh Kagalkar:** Now this year outlay you are saying is around 250-odd Crores?
- Ramkumar:** 350 Crores.
- M. S. Arun:** 350 Crores for this year and how do the capex looks for FY'15 or this will be our peak year of capex?
- Ramkumar:** Tough question. We would reserve the answer to a later period actually because what we have done now as Bala was saying whatever projects like large diameter which has been started we are going through with it, and we have some internal requirements, layout changes, and some improvements and all that. Those kinds of capex's we are spending. We are not getting into anything major, which will be in the nature of expansions, which originally as per plan we should have started by last year second half. We have put it on hold. So whether we would start in 2013-14 end or 2014-15 we are yet to figure out.
- Bhagyesh Kagalkar:** So, this 350 Crores will be staggered over the next two years?
- Ramkumar:** 350 Crores we are estimating for 2013-14 only. 2014-15 we have still put a question mark. There are some numbers floating, but it is not firm. We have to take a call vis-à-vis the market.
- Bhagyesh Kagalkar:** Around which quarter the plant actually starts generating revenue for you, the new plant, and the large diameter tube?
- Ramkumar:** It should be from the first quarter of 2014-15.
- Bhagyesh Kagalkar:** Next year basically it should start giving you?
- Ramkumar:** It gets commissioned in the last quarter of 2013-14 if everything goes well, and then it should start generating revenue.
- Bhagyesh Kagalkar:** Thank you Sir.
- Moderator:** Thank you. We are going to take our next question from the line of Arvind Subramaniam from IDFC Mutual Fund. Please go ahead.
- Arvind Subramanian:** Just wanted the debt levels again. On a consolidated basis, net of Chola Finance, what would be your debt level, because that is not tallying with your standalone? I am just trying



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to reconcile those numbers? On your consolidated financials, the debt of Chola Finance what would be your debt levels?

Ramkumar: You are talking about standalone Tube Investments, right?

Arvind Subramanian: Is there any debt outside of Chola and standalone Tube?

K Balasubramanian: The Cholamandalam MS has got no debt.

Ramkumar: Insurance has got no debt and financial services have a small quantity. Money is their main capital, raw material.

Arvind Subramanian: I am just checking net of Chola Finance?

Ramkumar: If you leave like Bala is saying Shanti Gears has got no debt, it is actually cash surplus, and Tube Investments is a company, which will have some 1300 Crores is what Bala is saying.

Arvind Subramanian: Basically, if I look at consolidated then it is just a question of Chola Finance debt as well as Tube Investments standalone debt?

Ramkumar: Correct.

Arvind Subramanian: Couple of quarters back you had mentioned that your debt equity threshold net debt to equity is around one time. You are more or less closer or in fact you are slightly reached that. Is there any recalibration in number?

Ramkumar: Ultimately our target debt equity is 1:1. We are working towards that. That is the reason why we have deferred certain capex's, which is not going to hurt our overall growth, and that we have done this year as well even the 2013-14 we are very cautious of our expansion. We are deferring some of the capex where we can afford to whereby keeping the total debt equity ratio as 1:1. Unfortunately this year of March 2013 our overall profitability has got a hit because of the external factors. Otherwise our target we would have definitely been in line with our target at 1:1.

Arvind Subramanian: So, this I mean this year again your endeavor would be to keep it at 1:1?

Ramkumar: Yes.

Arvind Subramanian: Fine. That is it from me.



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Moderator: Thank you. We are going to take a followup question from the line of M.S. Chellappa from Pari Washington Advisors. Please go ahead.

M.S. Chellappa: If I look at your standalone balance sheet, the network is 1181 Crores whereas the non-current investments are 1444 Crores. So, I just want to understand is the balance sheet being stretched more than the network there will be invested in non-current investments, so is that a stretch?

Ramkumar: Yes I think the numbers you gave are facts, and stretch or not is a matter of opinion but having said that if your question is what we will do about it I think there are various alternatives being explored for capital structure. We have always maintained that what we want to do is we would like to have a capital structure at the subsidiaries as well as TI in such a way that our growth is not affected because of this. So far we have been able to manage and as and when anything different is required in order to meet the aspirations of both the businesses it will be done.

M.S. Chellappa: Thank you Sir.

Moderator: Thank you. We are going to take our next question from the line of Akhil Jain from Aditya Birla Money. Please go ahead.

Akhil Jain: Good afternoon. I have a couple of questions. Firstly, given this is an election year, does an election year have a significant impact or favorable impact on demand for the bicycle's division and secondly what is likely to be the capex distribution? You said the FY'14 figure of 350 Crores what is likely to be the distribution among the different segments?

Ramkumar: Segments largely it will be the engineering around 200 odd Crores and the bicycle division probably around 50 Crores balance will be the Metal Forming. You asked about bicycles, you see it works both ways. I do not know. There are people because of the elections, specific states; they get into lot of schemes for bicycles. For example in the year 2012-13 there are two types of things the government does. Some of the governments like Tamil Nadu and Karnataka they say we want to distribute so many lakh cycles so we call for a tender and all the major players we all big bid for it and we get something one-third, one-fourth, one-fifth whatever. We supply to the government agencies who distribute to various people. Whereas in some of the states like Bihar, Orissa, UP and all that, they ask the people to go and buy in retail, they ask people to go to the shops and buy the cycle, show the evidence and they will transfer a fixed amount, Rs.2000 or Rs.2500 or something like that. So, this year for example in the year 2012-13 they went very slow. These people in Bihar, Orissa, and UP and all did not do this, and some of the people have got bicycle has a



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symbol also. So it is quite possible that in this year they may revive the scheme, which means it will definitely be helpful to the bicycle sector.

Akhil Jain: In the past, like whenever the general elections has happened what kind of this is a general growth say 5% or 6% on a year?

Ramkumar: There is no pattern, because it is summation of various states. It is not one state though it maybe a central government.

Akhil Jain: Does the central election have a big?

Ramkumar: Not really because the states decide this and states can do different things, but there are some states who do it every year continuously. There are like some are very sporadic.

Akhil Jain: Like lot of elections spending probably goes under rural sector?

Ramkumar: It goes, but it depends on the leader I suppose, political leader who decides whether it is in the form of bicycle or something else, but we do not, cannot say because general election is coming we should feel very happy and GONGO about it. It has not happened like that.

Akhil Jain: Thanks so much.

Moderator: Thank you. We are going to take our next question from the line of Sudhakar Prabhu from Span Capital. Please go ahead.

Sudhakar Prabhu: My question is again on the Gear business. If you could help us in understanding the market dynamics, how big is the market and who all are the competitors?

Ramkumar: The market consists of two segments. One is the import, which is also fairly large in the segment, and very specialized gearboxes of specific industries and very critical applications are still imported into India. My guess is around 40% to 50% of the value will be imported. The balance is made in India. And again in this there are two segments as we say regular standard gearboxes we sell as catalogue items, which can be used anywhere, whereas in the others we specifically talk about application as we discussed. The major players in this segment are apart from Shanti Gears there is a company called Elicon. They are very big in terms of size. They are largely into the standard markets as well so their volume and value is high. Then there is a company called Premium, who are based in the western part of the country and then Shanti Gears and then there are a lot of small little players so, I would say that we all cater to maybe 40% of the market, 40% to 45% balance is imported. The



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endeavor is to more and more indigenize because of the exchange rate and proximity and stuff like that. If we do that then there is more value to be added to the business.

- Sudhakar Prabhu:** What is the kind of gears to Shanti manufacture? Is it standard or customized one?
- Ramkumar:** They are largely into customized. Our standard portion will be much smaller. As you know there are different types of gears, based on the profile and all that, we are into all the range and we have 50 strong engineering teams who work with specific customers on development of various products.
- Sudhakar Prabhu:** Is there any significant margin difference between the standard and the customized one?
- Ramkumar:** Naturally, because you will have to understand the customer's requirement and what is the size, the task, and everything. Then you have to design something. So there is a value. Standard means you just buy it off the shelf, a regular applications, and simple applications like that.
- Sudhakar Prabhu:** Out of the total sales how much would be standardized and how much would be customized?
- Ramkumar:** Approximately 15% may be standard, 15% to 20%.
- Sudhakar Prabhu:** What kind of growth do you see for the next two to three years in this business? What should be your outlook for the same?
- Ramkumar:** We should definitely see a growth faster than the industry and overall market because we believe that we have some catching up to do. As you know in the peak we reached a much higher sales value and then the company sales came down in the last two to three years for reasons not related to market, but their internal reasons. So, what we are doing is we are trying to connect with all those customers who are happy with us but we could not supply earlier and we are also happy that they want us to get back. So, we should see fairly good growth in this business in the next two to three years. It should be definitely faster than what the industry is growing at.
- Sudhakar Prabhu:** What is your current capacity utilization and what kind of revenue is possible on the existing business, existing setup?



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Ramkumar: Current capacity utilization could be in the range of 40% or overall. There are different machines some may be 20%, some may be 60%. If you want a ballpark number it will be 40% to 45%.

Sudhakar Prabhu: Thank you and all the best.

Moderator: Thank you. We are going to take our next question from the line of Ravi Purohit from SIMTEL. Please go ahead.

Ravi Purohit: Lot of my questions has been answered. Just a couple of questions on Shanti Gears. One was what does the Company think of this keeping it separate as a separate Company. Do you have any thoughts as of now or is something that the Company will assess a year down the line or couple of years down the line? Secondly there has been a lot of volatility in their performance in the recent quarters so, I do not know whether you actually already gave some outlook in the beginning of the call, I missed the beginning of the call. So, if you could just briefly explain?

Ramkumar: Actually as far as this Company is concerned, currently our thinking is to have it as a standalone Company, and Shanti has got a very strong brand name so we definitely would like to leverage it fully and we would keep it that way as far as the product brand is concerned. The volatility if you see last year the first half of the year was with the earlier management, the second half was by us from September 3. So, I think, even the earlier management themselves considered there was a lot of uncertainty because of who is going to buy and all that. So, I think, the real consolidation in all the efforts in terms of manpower, streamlining everything started after we took over and I am glad to say that in the Q4 of last year, a fair amount of work has been done in terms of streamlining, rationalizing people, looking at the organization structure, we connecting with customers which on the face-to-face, would not give any revenue immediately, we are getting prepared and as I said in the beginning that we definitely are seeing a very good order inflow at this point of time. So, going forward it should be more now, we are concentrating more on execution and more faster deliveries to them in order to get more orders. So that is the outlook.

Ravi Purohit: Just two additional questions related to this. One is can you share the order book for Shanti Gears as of now and second was even the previous management was a lot more focused on their margins it seems. I mean if I look at their last 10 years performance is there any change in that for us to let us get higher capacity utilizations or get newer business. So, I am just trying to understand our thought process vis-à-vis let us say for the previous management was thinking?



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Ramkumar: At the moment we would not like to dilute the margin efforts, because as I said we are doing a catching up game for sometime so there we have done a higher margin at a higher value of sales also. So, presumably things have changed in the last two to three years when these guys were a little out of the market, so presumably there is a potential for these products for that margin, which I think we have not fully explored. The order book is pretty healthy at around 70 Crores.

Ravi Purohit: Lastly, on the balance sheet. Shanti Gears balance sheet looks pristine about 90-odd Crores of cash on the balance sheet as of March. We read somewhere in the past that there is also a lot of vacant land parcel that the company holds. All of this put together must be roughly valued at 150-odd Crores of surplus cash and land. Since you are saying we are already at a 40% capacity utilization, so there is not really much of a requirement of capex utilization over the next two to three years. Apart from that if I look at depreciation policy of Shanti Gears it seems like a very, very aggressive depreciation policy, almost it is like 28 to 30 Crores of depreciation every year. So, that business will keep throwing out another 25 to 30 Crores of cash over the next two to three years. So, you may end up having more than 200 Crores of cash and land over the next two years. So any thoughts on those?

Ramkumar: Good news to have.

Ravi Purohit: It is a good problem to have. There are actually a couple of things I want to say. One is last year while we did not grow much. We have done quite a bit of control on working capital; we have reduced our inventory with better collections and all that. That is also added to the cash, and as we grow I think there is some increase in working capital will be required. So, to that extent we need to use. We are wanting to get deeper into as I said in the beginning some of the industries, as I said, we need to specialize and say two to three industries, we need to enhance our product range and capability, which may not be done only by the current equipments we have, which means we may have to go in for some tie-ups or technology whatever, there are several things being explored. There is nothing worth mentioning at this point of time. So, this money will definitely be put to use for more productive purposes in terms of enhancing the product range or new technology or additional facilities. At the moment, we have not zeroed on anything. This is broadly the way we will actually take it.

Ravi Purohit: On your comment on depreciation policy. It seems oddly high.

Ramkumar: Actually the capital investment in this business is quite high. Capital to turnover ratio compared to CI and all that it is light engineering. So, the depreciation policy is by and



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large in line with what most companies follow. Fixed assets involvement is quite high for the turnover we do.

Ravi Purohit:

Thanks a lot. All the best for the future.

Moderator:

Thank you. At this moment there are no further questions, I would like to hand over the conference to Mr. Farzan Madon for closing comments. Thank you.

Farzan Madon:

Thank you everybody for participating in today's concall. Thank you very much.

Moderator:

Thank you. On behalf of Axis Capital Limited that concludes this conference call. Thank you for joining us. You may now disconnect your line. Thank you.