"Tube Investments of India Limited Q4 FY 2018 Earnings Conference Call"

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MANAGEMENT: MR. L. RAMKUMAR -- MANAGING DIRECTOR, TUBE INVESTMENTS OF INDIA LIMITED
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MODERATOR: MR. KASHYAP PUJARA -- AXIS CAPITAL LIMITED

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Tube Investments Q4 FY 2018 Earnings Call hosted by Axis Capital Limited. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone telephone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Kashyap Pujara from Axis Capital Limited. Thank you and over to you, sir!

Kashyap Pujara: Thank you and Good Afternoon, Everyone, and Thank you so much for standing by. It is a great pleasure to have with us the management of Tube Investments of India.

From the management side, we are represented by Mr. Ramkumar -- who is the MD; and Mr. Mahendra Kumar -- who is the CFO.

I now, handover the floor to Mr. Ramkumar. Over to you, Sir!

L. Ramkumar: Thank you, Kashyap. Good Afternoon to all of you. Thank you for taking time off to attend this conference. I shall quickly take you through highlights of Q4 of 2017 - 2018 and the full year. I am sure all of you have seen the results and the Press Release. I will share the highlights.

Our revenue went up by 2% during the quarter. Except for bi-cycles, all other businesses registered good growth in top-line, aided by good pick-up in the auto sector.

Before exceptional items, we grew by 18% in PBT. I shall cover the exceptional item separately.

As you know, the company has declared the final dividend of Rs.0.50 per share. Together with the interim dividend of Rs.1.25 per share, the total dividend for the year is Rs.1.75 per share. During the year, net revenue registered a growth of 12% and PBT recorded a growth of 8%.

The debt-equity improved to 0.6 from 0.7, and debt to EBITDA improved from 2.1 to 1.8. The interest cost also reduced by 22% year-on-year.

Engineering Division

Engineering Division delivered a good performance, with highest ever sales. The Large Diameter Tubes division registered a good growth of around 60% and has been steadily ramping up quarter-on-quarter.

We also had marginal growth in exports in the Engineering Division. We have received several national and international awards.

Overall, the net revenue growth year-on-year and for the quarter was 24% and 27% respectively. PBIT grew by 20% for the year and 83% in Q4.

Bicycle Division

FY 2017-18 was a very difficult year for Cycles Business. The two silver linings were,

1. Our Institutional volumes at 10.8 lakhs units against 8.2 lakhs units.
2. The performance cycling, which is higher end bi-cycles, grew by 29%.

Overall, the volumes were down since the market conditions were not very favorable.

We also decided to rationalize our locations. So, we had to shut down our operations in Nasik. The impact of shutdown on the financials of bi-cycles division was around Rs. 11 crores, in terms of the compensation to employees, inventory write-downs, etc. This was a one-time item costs.

The revenue (net of ED), for the division, declined by 3%. We believe that the market declined by 10% to 12%. We implemented lot of actions during the year to reduce the fixed cost, given that the volumes are not predictable. The favourable effect on fixed costs because of closure of Nashik plant and cost reduction initiatives will be reflected in the financial year 2018-19.

Metal Formed Products

Metal Formed Products had a good year since two wheeler industry grew by 16%, scooters grew by 20% and passenger vehicles grew by 6%.

The net revenue went up by 11% and 8% for full year and Q4 respectively. PBIT grew by 16% for full year and 43% for Q4. There was a good growth in the auto chains volume in the OE market and in the aftermarket. Fine Blanking which is a focus area for us, grew by 29%. Industrial Chains also saw a moderate growth of 8%.

The Door Frames grew both for the full year and quarter, by registering a growth of 13% in Q4. The railway coaches segmentregistered a healthy growth of 40% because of strong demand from the Railways. We expect this trend to continue in the near future.

TII

Overall, exports of TI went up by 3% from Rs. 343 crores to Rs. 349 crores.

The exceptional item of Rs. 25.25 crores pertains to two of our investments in our joint ventures. One pertains to TI absolute, where we partnered with a Company to promote cafes serving gourmet food and sell high-end bi-cycles. These cafes also promote cycling as a Sport and experience. We had opened centres in Chennai, Gurugram, Bangalore and Hyderabad. Gurugram was not viable and was closed down. The other 3 are taking time to breakeven. Considering the accumulated losses as at the end of the year, impairment provision has been made.

The other one is a venture, we have for making the automotive dies. We did have a decent turnover in the first full year of manufacturing operations. The losses incurred over two years plus the cost of training in earlier years led to losses becoming a significant percentage of the Capital. In view of this, the investment value has been impaired.

Subsidiaries

Shanthi Gears had a good year. The net revenue registered a growth of 16% and 9% for the full year and quarter respectively. The order booking also improved during the year by 12%, compared to the previous year. The business conditions seem strong for this business.

Sedis, our subsidiary in France had a reasonably good year. The sales grew by 9% and there was improvement in the bottom-line.

Outlook

Going forward, we expect good growth in the auto sector. Order books are pretty strong and we are getting geared up with volumes increasing every month. We have invested in an additional facility at Rajpura for our Tubes and this will get commissioned very soon. The trial production is going on. This plant will meet the growing demand from the auto sector.

Going forward, the bicycle division will be restructured to have a lean operation. The costs, both variable and fixed are being cut down and focus on profitable models would improve margins.

I will be very happy to take any questions, you may have.

Moderator: Sure. Thank you very much. We will now begin the Question-and-Answer Session. We have the first question from the line of Sujit Jain from ASK Investments. Please go ahead.

Sujit Jain: Sorry, what explains the capital employed coming down by Rs. 96 crores in Engineering Division Q-o-Q?

L. Ramkumar: You are talking about increase or decrease?

Sujit Jain: In Engineering Division, the capital employed has come down from Rs. 329 crores to Rs. 233 crores, that is quarter-on-quarter, December to March quarter.

Mahendra Kumar: Not on Engineering division. In Cycles and Accessories, capital employed has come down from Rs. 329 crores to Rs. 233 crores.

Sujit Jain: I will check my number but if that is the case, what actually is the reason**.**

Mahendra Kumar: Working capital was brought under control. We had high institutional outstanding last time which we brought down during Q4.

Sujit Jain: Okay. In the two JV that you spoke about, what is the impairment provision created for Ciclo Café and the other JV?

L. Ramkumar: The provision for Ciclo café investment was larger than for the other JV.

Sujit Jain: Okay. And what are the volumes for the quarter in Bi-cycles and if you can give a realization, I believe you have component revenues also in the revenues of Bi-cycles?

Mahendra Kumar: Do you mean Spared?

Sujit Jain: Yes. You can give me realization if you could, and also the volumes.

L.Ramkumar: You want to know the value of sales.

Sujit Jain: Value we have. But you can give the value and volume of Bi-cycles.

L. Ramkumar: You want Q4 or whole year?

Sujit Jain: Both.

L. Ramkumar: Total cycles sales in Q4 was 6.2 lakh cycles and for the full year it was 37.6 lakhs.

Sujit Jain: And what was the corresponding volume Y-o-Y for the base quarter?

L.Ramkumar: Yes. So last year Q4 was 10.3 lakhs; the full year was 39.5 lakhs.

Sujit Jain: Okay. And in the revenue of Bi-cycles division, we basically wanted to know the realization per unit in Bi-cycles or you can give the rough component I mean how is the Bi-cycles revenue is split between components and Bi-cycles?

L.Ramkumar: No, Bi-cycles will be significant. We have sold 10.84 lakhs to the institutions and 8.22 lakhs was the corresponding figure of the previous year. These will have different realization and the trade will have a higher realization.

Sujit Jain: Correct.

L.Ramkumar: Otherwise, components portion is not very significant.

Sujit Jain: And performance cycling sales increased by 29%?

L.Ramkumar: Correct.

Sujit Jain: How much is that as a portion of overall bike sales? I mean how big is the segment for us and as well as the industry?

L.Ramkumar: It is 5%.

Sujit Jain: Okay. And could you give the volumes in the Engineering Division as well as realization?

L.Ramkumar: Realizations will be different for each segment. In terms of the total tubes volumes, for whole year, it was 2.2 lakh tonnes compared to 1.85 lakh tonnes of last year.

Sujit Jain: 1.85 lakh tonnes, okay.

L.Ramkumar: In the case of strips we did 60,000 tonnes as against 56,000 tonnes last year.

Sujit Jain: Sorry, 60,000 tonnes as against 56,000 tonnes last year?

L.Ramkumar: Correct.

Sujit Jain: Okay. And just to come back to the Bi-cycles division, we closed one division in North, put out the Rajpura plant and now we have closed the Nashik division. So what is the name plate capacity of the division?

L.Ramkumar: Yes. We closed a plant at Noida and opened a new plant at Rajpura. We have closed the Nashik Plant with the objective of achieving cost efficiency and consolidation of overall capacity at two locations viz., Ambattur, Chennai and Rajpura, Punjab. The name plate capacity is something like 3.5 lakhs to 4 lakhs per month depending on the mix.

Sujit Jain: 4.8 million to 5 million Cycles is what we can produce and is that the correct understanding?

L.Ramkumar: Correct, you are right.

Moderator: Thank you. We have the next question from Kashyap Pujara, Axis Capital. Please go ahead.

Kashyap Pujara: Mr. Ramkumar, I would like to understand, given that you mentioned that the focus of cycles division would be to improve profitability by cost rationalization on a lower top-line base as well. Now given that would it imply that we will be shrinking our supplies to the Government because the gross margin per cycle there would be reasonably lower than the one we do in trade and in specials and in performance. So, would that be the right strategy going forward because that was also accompany lower working capital in the same segment driven ROCE up?

L. Ramkumar: No, what I meant is, we will continue institutional business because, apart from having volume, it also gives us visibility in the respective markets. We would like our customers to know our brand in those parts of the country. I meant we shall do SKU rationalization to reduce overall costs and bring in more focus on specific models plus segment for better profitability.

Kashyap Pujara: So given that context, I mean you know the way I see it is that on the current top-line base there are a lot of areas where we have operating leverage drivers like even the top-line of the company is at Rs. 4,500 or Rs. 5,000 crores. We have cycles which historically has been at 5% margins, currently at a lower point and you are saying that margins can improve there. Within Engineering also large dia still has room to improve. Metal Forming you know the Car Door Frames and the Coaches businesses is just doing better incrementally. So how do I look operating leverage within Tube Investments? Could you just let us know where all other levers we have for improving margins on the similar kind of a top-line base?

L. Ramkumar: Yes, in the case of Bi-cycles, the market is an issue but we have enough capacity. In Tubes, we just set up a plant which is being commissioned The revenue will start following from 2018 - 2019 onwards. In the case of fine blanking also, the volumes are increasing and we have made some expansion in the existing location which means there is an operating leverage. In large diameter tubing, we came to breakeven on PBIT basis in Q4 and substantially reduced the losses from the previous year. It will definitely be PBT positive and we are also looking at products with higher margin. This should also help us to improve the margin. In the case of chains, we have some room to increase without further investment given the market situation. The investments already made will also give higher operating margins. So, these are broadly the reasons why our margins should get better.

Kashyap Pujara: And on the Cycles front, even if the top-line comes off a bit, we can still expect historical 4% - 5% margins that we have reported close to 5% margins to come back?

L. Ramkumar: Yes, that is the goal. Maybe it will happen over two years, not in the first year itself.

Kashyap Pujara: Sure. And lastly, just one question before I get back in the queue. Would be that given that most of the places you have mentioned that we have already spent money and it is now essentially waiting for growth. So what is the kind of CAPEX that we would look at given that most CAPEX is already behind us?

L. Ramkumar: No, the capex would be only for further level of expansion required in Metal Forming, Fine Blanking and Tubes. So the CAPEX being planned will be in the range of Rs. 150 crores to Rs. 200 crores.

Kashyap Pujara: Rs. 150 crores to Rs. 200 crores, sure.

Moderator: Thank you. Next question is from Vipul Shah from Sumangal Investments. Please go ahead.

Vipul Shah: Sir, would you repeat those Engineering Division figures varied for the quarter or for the year?

L. Ramkumar: For the full year, the total tonnage of Tubes was 2.2 lakh tonnes as against 1.85 lakh tonnes last year. In the case of strips, it was 60,000 tonnes for the whole year against 56,000 last year.

Moderator: Thank you. We have a follow up question from the line of Kashyap Pujara from Axis Capital. Please go ahead.

Kashyap Pujara: Just one bookkeeping question what is the borrowing level at the standalone level at the end of the year because I think there is some borrowing even sitting in the other financial liabilities as well, so if you just give the total borrowing?

Mahendra Kumar: It was about 687 crores, We brought it down by about 89 crores compared to last year.

Kashyap Pujara: Given over the next 3 years if you want to just crystal gaze on Tube, how do we actually look at reducing debt from here because will have 150 crores of ongoing CAPEX on a normalized basis, so how do we actually end up bringing the debt down over the year? Any particular thoughts that you can share there and also a sustainable level of growth that you could actually look at on the top-line or across segments whatever you could share?

Mahendra Kumar: Yes, we generate about 300 crores cash from operations. So if we are able to limit our CAPEX to 150 to 200 crores and improve our NWC levels, we will be able to bring down the debt in the coming years.

Moderator: Thank you. The next question is from the line of Siddharth Bhattacharya from Suyash Advisors. Please go ahead.

Siddharth Bhattacharya: I just wanted to ask if you could sort of breakup of the CDW and ERW volumes that you have done I am sorry if I am repeating the question again.

L. Ramkumar: Normally, for competitive reasons, we are not in a position to share this. But bulk of the growth is coming from CDW.

Siddharth Bhattacharya: And also within the segments, where is the growth actually coming from I mean or the domestic sector per se or both?

L. Ramkumar: In the current year, the growth was mainly from domestic business, and exports increased marginally in value terms.

Siddharth Bhattacharya: And if you could also help me understand in terms of price realizations what is the trend that we are seeing without actually giving actual prices?

L. Ramkumar: Price realization CDW versus ERW.

Siddharth Bhattacharya: Yes.

L. Ramkumar: CDW is higher. ERW is the input for making CDW.

Siddharth Bhattacharya: And the pricing trend within the CDW segment over the last 3, 4, 5 years?

L. Ramkumar: In automotive, the pricing depends to a large extent on the raw material cost, which the OEMs and Tier-1 suppliers are willing to compensate us. In the last 6 months to 1 year, the steel prices have gone up. So there has been an increase in both raw material costs and selling prices. The profit has to come from more efficiency, yield improvement etc. When the steel prices go down, then we will have to pass on that reduction also. So the pricing will always be in line with the commodity price movement.

Siddharth Bhattacharya: Finally, I just also read somewhere that lot of the components within let say a four-wheeler are getting converted into tubular sort of component which is based on tubes, so would that be a fair sort of a judgment that more and more components would be more of tubular based in the future?

L. Ramkumar: We have participated in many of the programs in helping OEM's to convert the rods and other things into tubes. It is part of our growth and new product development strategy.

Moderator: Thank you. The next question is from the line of Vikas Sharma from Entrust Family Office.

Vikas Sharma: Just wanted to know about your subsidiary, Shanthi Gears, we spoke that the business conditions are improving but our operating profit margin in Shanthi Gear in the latest quarter announcement was the lowest in past 7 to 8 quarters, so just wanted your comments. So that means our revenues are increasing, but is that a problem with our product mix?

L. Ramkumar: Yes you are right. But this is not going to be the trend and year average will be more representative.

Vikas Sharma: The year average is always around 17% to 20%, will that be near that?

L. Ramkumar: Yes correct.

Vikas Sharma: Also, I have one more request in order to know more about our subsidiary, Shanthi Gears, there is no investor presentation available, there is no communication where investors can reach out to the company so what will be the best mode to know more about this company, how can we reach there?

L. Ramkumar: Point is taken. We will start with the investor presentation and we will be happy to take your questions w.r.t Shanthi Gears in our Investor Call.

Vikas Sharma: So the next question again on Shanthi Gears only, so clients from which industry have been showing this kind of good momentum in terms of order booking? So majority of the order book is coming from which sector for your gear and gear products?

L. Ramkumar: There has been some improvement in off-road vehicle sector, steel sector and other general engineering industries.

Vikas Sharma: One more question which product has a higher margin whether it will be standard, or custom built in the Shanthi Gears?

L. Ramkumar: Naturally, custom built is more profitable.

Vikas Sharma: So basically, in Q4 we had sold more of standard than custom built?

L. Ramkumar: Yes, in tender based, orders would be taken at a little lower price for strategic reasons. There has been a mix in that.

Vikas Sharma: Presently the order book which we have in Shanthi Gears how much of that is the tender book?

L. Ramkumar: Current full year margin will be the ideal representative of the next full year margin.

Vikas Sharma: I would be grateful if you can fulfill the commitment of this Q1 onwards presentations on Shanthi Gears?

L. Ramkumar: Yes, definitely we will do. No problem.

Moderator: Thank you. The next question is from the line of Gagan Thareja from Kotak Investment Advisory.

Gagan Thareja: First question pertaining to your Ciclo-Café you took some write-downs, it possible to understand at a segmental level what could be the turnover and the loss contribution from the Cyclo-Cafe venture and the capital employed post the write-down.

L. Ramkumar: Turnover of the Company was Rs.10 Cr and Operating loss was Rs.12 Cr.

Gagan Thareja: Exports growth for the year was as you said marginal, but you have been indicating that it could be a significant growth driver for you in the future. So just wanted to understand your outlook for export both near and mid-term one and secondly, also now you would have had some time to understand the impact of the US import duty also, if you could take that also as a factor into consideration and give some idea of how we should think of exports?

L. Ramkumar: The antidumping duty has been levied recently by the US Government and also they had investigation on Countervailing and anti-dumping on many companies in India, China and Europe. All these have had a very dampening effect and reduced the potential sales we could have done during the year 2017-2018. So, we are not looking at US for 2018-2019, but are exploring other markets, where we have seen traction for our products. So, we believe we will start getting orders from the new markets this year and we will see a good growth in the year 2019-2020.

Gagan Thareja: How much would US contribute to your exports?

L. Ramkumar: It was around 100 crores in 2017-18.

Gagan Thareja: This you believe is difficult to grow given the current….

L. Ramkumar: We are looking at new markets and we believe that this would be compensated with orders from new markets.

Gagan Thareja: In the base case this 100 crore might further come down in the coming year?

L. Ramkumar: Yes. We shall make up this drop with orders from other markets.

Gagan Thareja: Given that steel prices have moved up I do not know how the price renegotiation, how many times, or how does it happen between you and the OEMs, but with the current outlook on steel whatever it is for you, would be improvements that you could see coming off from economies of scale in some of your business and cost rationalization in some of the other businesses? Net-

net would you still have a positive impact at the operating level or you think the gross margin erosions because of steel prices would eat into some of these cost efficiencies that you will be able to build?

L. Ramkumar: No, we have been able to manage the margins, by recoveries from the customers.

Moderator: Thank you. The next question is from the line of Vipul Shah from Sumangal Investments. Please go ahead. Please go ahead.

Vipul Shah: What is the capacity in the Tube division and after this expansion what will be the ultimate capacity?

L. Ramkumar: With the new plant included, our capacity utilization would be 80%-85%.

Vipul Shah: What will be the installed capacity after this expansion?

L. Ramkumar: We should be able to give it, once the plant stabilizes.

Moderator: Thank you. Next question is from Sunny Agarwal from PNB. Please go ahead.

Sunny Agarwal: I just would like to know what is the order book as of Q4 for Shanthi Gears and what was the ordering flow during the last quarter?

L. Ramkumar: Outstanding order book is around 130 crores, better than last year.

Sunny Agarwal: And how has been the order inflow during FY18?

L. Ramkumar: Q4 or the full year you are asking?

Sunny Agarwal: For full year.

L. Ramkumar: For full year, the order booking was 237 crores.

Moderator: That was the last question. As there are no further question I would like to hand the conference back to Mr. Kashyap Pujara for closing comments.

Kashyap Pujara: Thank you so much everyone and thank you to Mr. Ramkumar and Mr. Mahendra Kumar for being on there on the call today and answering all the questions.

L. Ramkumar: Thank you all of you.

Moderator: Thank you very much. On behalf of Axis Capital Limited that concludes this conference. Thank you for joining us ladies and gentlemen. You may now disconnect your lines.