



**“Tube Investments Q4 FY19 Earnings Conference Call
hosted by Axis Capital Limited”**

May 03, 2019



**MANAGEMENT: MR. VELLAYAN SUBBIAH – MANAGING DIRECTOR
MR. MAHENDRA KUMAR – CHIEF FINANCIAL OFFICER**
MODERATOR: MR. KASHYAP PUJARA – AXIS CAPITAL LIMITED



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Moderator: Ladies and Gentlemen, Good day and welcome to the Tube Investments Q4 FY19 Earnings Conference 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kashyap Pujara from Axis Capital Limited. Thank you and over to you, Mr. Kashyap Pujara.

Kashyap Pujara: Good morning everyone and thank you so much for standing by. It is a great pleasure to have with us the management of Tube Investments Limited.

From the management side we are represented by Vellayan Subbiah who is the MD and Mahendra Kumar who is a CFO. Without taking much time I hand over the floor to Mr. Vellayan Subbiah. Over to you, sir.

Vellayan Subbiah: Kashyap, thanks a lot and thanks for joining us in the call. Basically, we just wanted to talk through few highlights on the call and then I will be happy to answer any questions that you have.

As discussed in the past we continued to focus on four key priorities which are Revenue Growth, profitability, Return on Capital Employed and Free cash flow. On all these four priorities we will take performance for the quarter and the last year:

Revenue is at 1224 crores for the quarter which is at 10% growth of Q4 for last year. Revenue for the whole year was at 5,286 crores which is at 16% growth over last year. This is in standalone basis.

Our profit before tax before exceptional items was at 86 crores which is a growth of 75% over the Q4 of last year and the PBT for the whole year before exceptional items was 371 crores which is a growth of 70% over last year. The PBT to sales ratio which is one of the key metrics that we have set in for monitoring has expanded from 5% to 7.2% before exceptional items if you exclude onetime events. The return on capital employed was at 21% for the year-ended 31st March, 2019 that is versus 14% for the year-ended 31st March, 2018 so there has been a handsome increase there.

And finally, for cumulative free cash flow we have a cumulative FCF of 208 crores for a year ended 31st March 2019 which was 85% of our profit after tax and this is basically resulted in debt reduction of 173 crores. We have brought our net debt down from 660 to 487 crores.



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The free cash flow for the year ended 31st March, 2018 was at 87 crores so basically, we have seen a significant increase in free cash flow as well. So, in terms of those four metrics we have improved significantly.

The Board has also recommended a final dividend of 75 paise per share. We also declared an interim of 1.75. Dividend per year has gone to 2.5 which is an increase from last year.

A couple of events basically we also have taken an impairment provision of 12 crores pertaining to joint venture company which was called Tsubamex and we had in the standalone results for this year that we took that in Q3. For the Engineering business basically the revenue for the quarter was Rs.659 crores, it is a growth of 5%. PBIT was at Rs.65 crores versus Rs.46 crores which is a growth of 42%.

Revenue for the full year was Rs.2896 crores and that is a growth of 26%. PBIT for the year was Rs.254 crores as against Rs.175 crores which is a growth of 45%. ROCE was at 37% versus 26% last year. In Cycles, where revenue growth was 16% during the quarter, but the loss before interest and tax for the quarter was Rs.6 crores as against loss before interest and tax at Rs.20 crores in the corresponding quarter of the previous year. Revenue for the full year is actually down at Rs.1238 crores versus Rs.1300 crores last year mainly because we have lower institutional sales and PBIT before interest and tax was at Rs.11 crores as against Rs.0.34 crores. The ROCE is at 6% for that business.

Our metal formed products business has revenue of Rs.358 crores compared to Rs.307 crores which is a growth of 17%. PBIT was 30 crores as against Rs.28 crores. Revenue for the full year of metal formed was at Rs.1360 crores versus Rs.1150 crores which is a growth of 18% and PBIT for the full year was at Rs.123 crores as against Rs.102 crores which is a growth of 20%. So, ROCE for the division was at 27% as against 26% last year.

On the consolidated basis revenue for the quarter was at Rs.1347 crores and the PAT for the quarter was at Rs.56 crores as against Rs.39 crores in the corresponding quarter last year and revenue for the year was at Rs.5775 crores as against Rs.5000 crores for the previous year. PAT was at Rs.251 crores as against Rs.156 crores in the previous year.

The Shanthi Gears, our subsidiary had registered revenue of Rs.60 crores for the quarter as against Rs.55 crores which is a growth of 10% and the full year revenue was Rs.243 crores compared to Rs.214 crores. The PBT for that business was Rs.42 crores as against Rs.33 crores in the previous year.

So that is a quick review of the performance for the quarter. Kashyap and team will be happy to kind of answer any questions from the audience. Thank you.



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Moderator: We will now begin the question and answer session. The first question is from the line of Sanjay Shah from KSA Securities. Please go ahead.

Sanjay Shah: Sir I would like to understand what are the factors you attribute to this fantastic PBT to sales growth in this year in spite of sluggish autos market and how do you see the future ahead?

Vellayan Subbiah: There are two things first from the market perspectives the market started getting sluggish in December and earlier in the year the market was not so sluggish. So definitely that is one factor, but obviously like we have been articulating for the last four quarters to you basically, what we have been doing is driving a set of initiatives to improve both profitability and free cash flows. The profitability initiatives that we have been kind of focused on a set of areas that have been focused on quality and productivity improvement, I have been focused on fixed cost reduction, there has been focused on realization, improved profitability from scratch, improved performance across logistics which is a huge areas of spend for us almost 250 crores, improved performance in power where we are trying to reduce both the power consumed and the effective rate per kilowatt hour that we end up spending. Power ends up being 110 to 120 crore expense for us, looking at alternatives sourcing strategies for steel which is our largest by far. This year we have got some Chinese steel into the plant as well, basically kind of broad basing our Indian sourcing mix across our three large suppliers and then basically just looking at overall kind of opportunities to improve contribution for the business from increased efficiency. So we have almost 75 projects teams working on this profit improvement initiatives through the year and those project teams have begun to yield results though I do think we will see and we are obviously focused on future, better improvement in the year 19-20.

Sanjay Shah: Sir I appreciate that we have improved a lot on operational efficiency side, but how do you see sir growth side? How do you see the market ahead and where how we are placed in that for coming years?

Vellayan Subbiah: What we have done Sanjay, one of the things we did is restructuring our organization into 18 business units and what we have done is taking varying business units and tiers them into three tiers of growth. One is what we see kind of the lower growth business units, two is what we see medium growth and three is what we see a high growth potential. High growth potential means that we will be able to scale those businesses at more than 20% a year. Medium growth is averaging around 15% and then the one that we see at below 10% are the kind of low growth ones. Now when we look at those in the potential expansion we can get between our high growth and medium growth businesses those give us a certain amount of revenue expansion. Now what we have articulated, we would like to get to about 17% revenue growth number. In the last year we had a 16%. So one of the things we have triggered to kind of drive new growth there is get into a new set of businesses. We launched two of those businesses last year and we basically gone out and announced a third business that we are going to get into. So the two we



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launched was on the TMT bar side and on the truck body side and the third one we have announced it on the optical side. So in-years they will provide us less but in the out years they will start helping us bridge that the revenue gap to allow us to hit that 17% number that cannot come from the core businesses. So in our estimates we should be able to hit at least a 13% to 14% number from the existing business mix and then satisfy the rest from new business in the in-years.

- Sanjay Shah:** Sir what is our contribution from aftermarket and how we are posed for that growth that side?
- Vellayan Subbiah:** We have predominantly kind of one large aftermarket business on the chain side.
- Mahendra Kumar:** It is about 4% of the total business it is not very significant.
- Vellayan Subbiah:** But we do see significant growth opportunity in that business on which we are going to be very focused on here.
- Moderator:** The next question is from the line of Sagar Parekh from Deep Financial. Please go ahead.
- Sagar Parekh:** Sir firstly, on the Cycles division, can you give us the volume breakup for FY19 between institutional and retail and what would be the total number in FY19?
- Vellayan Subbiah:** We have not shared that level of granularity, but to give you a sense obviously kind of the trade business one-fourth of the total revenue is institutional and what was your second question.
- Sagar Parekh:** One fourth is institutional your trade I mean.
- Vellayan Subbiah:** One-fourth is institutional, three-fourth is trade.
- Sagar Parekh:** And you said that this FY19 institutional was lower as compared to trade, so what would be the growth for retail sales?
- Vellayan Subbiah:** So what I said was institutional sales were lower so if your question is kind of what is you are asking is the retail sales were flat the trade sales were flat.
- Sagar Parekh:** And what would be the outlook for FY20 from this division, still sluggishness continues?
- Vellayan Subbiah:** We are taking a very strong focus on the trade side of the business in the coming year and basically one of the things that we are looking at is how we can grow both on the margin side and on the revenue side in that business. So, I would say that but definitely if you look at our business mix, Cycles is a low growth business for us, so we do not expect revenue expansion



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in our business. We are much more focused thereon basically improving profitability because at a PBT level that business has not been profitable for the last couple of years. So, our focus this year is just to make that business profitable at a PBT level.

Sagar Parekh: So what kind of PBT numbers can be sustainable going, so EBIT margin for this year was I think 1.5%, 1.6%, what can be the improvements?

Vellayan Subbiah: We like to see that margin expand by at least 5% this year EBIT margin.

Sagar Parekh: And total volumes for FY19 from Cycle?

Vellayan Subbiah: It is still not determined so we don't feel comfortable sharing that with you at this stage.

Sagar Parekh: On the Engineering part for FY19, what would be the export revenue growth?

Mahendra Kumar: In Engineering 26% growth last year.

Sagar Parekh: On exports.

Mahendra Kumar: Total exports grew by 19% at the company level.

Vellayan Subbiah: No, the exports in the Engineering grew at a higher level or give us a minute we will get back to you with that data. We will pull up the data, we can go to the next question and we will get back to you and answer at some stage.

Sagar Parekh: So I just wanted to get some sense on the export outlook also going forward from the Engineering division point of view?

Vellayan Subbiah: So like we said that is our biggest focus area. We are focusing very aggressively on growth there, what we will also give you is some indication of how much growth we can expect in the coming year in that business on the export side as well, we will pull up those numbers and get back to you in a couple of minutes.

Sagar Parekh: Sir you mentioned about this new business unit which we launched the third one I could not hear the name it is on the optic side is it?

Vellayan Subbiah: It is on the optics and on the vision side.

Sagar Parekh: If you talk on this Engineering export numbers?



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- Vellayan Subbiah:** So, Engineering exports grew at 31% and we can expect at least the same growth number this year as well.
- Sagar Parekh:** And what is driving this such a huge jump in growth?
- Vellayan Subbiah:** In Engineering.
- Sagar Parekh:** Yes.
- Vellayan Subbiah:** We are focused both on the OEM and the distributor side in both European and Asian market and what we started doing is working on a lot of product development where we are developing our components that traditionally India has not been able to manufacture before, but our very large components we have taken a global scale. So, for some of these components what we are finding is now we are getting OEM acceptance and that will give us kind of significant volumes that we can scale with those OEMs with. So it is a huge product development effort that we are undergoing that has actually requires a significant amount of technical. So it is actually a combination of technical, metallurgical and Engineering scales which we were investing in to develop products hitherto not been made in India at all, but there is a lot of demand for in the European market and well I guess also in the US market if kind of the above open up from a duty perspective.
- Sagar Parekh:** And lastly sir how much would be total exports in so you said 31% growth can I have the absolute number of exports from Engineering?
- Vellayan Subbiah:** Actually, I think we prefer not to share that number at that level of granularity right now.
- Sagar Parekh:** In terms of percentage if you can just give us a share that how much would be?
- Vellayan Subbiah:** That is a same thing man. Let me say that there is enough headroom for growth may be put it that way, lot of opportunity for growth. It is our biggest focus area. So I mean that is a one area that we are extremely focused on in terms of growth and so Sagar just kind of take it from us that we definitely see a lot of expansion there and we see that is the biggest opportunity for the Engineering business, so we are very focused there and there is a lot more opportunity for expansion though.
- Moderator:** The next question is from Shyam Sundar Sriram from Sundaram Mutual Fund. Please go ahead.
- Shyam Sundar Sriram:** In the Metal Forming division we clocked a very good growth of 15% if you can throw some color on how the change growth has been given that there has been a slowdown in the two-wheeler segment, any color on that sir?



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- Mahendra Kumar:** So the overall metal formed products went up by about 17% year over year and most of the growth is coming from the railways and also fine-blanking and of course to some extent in the Auto Chains business also in the first half of the year. Second half we saw some kind of dip in the auto volumes, but in the first half we had very good growth.
- Shyam Sundar Sriram:** No sir I was more referring to the quarter the Metal Forming division revenues were quite strong despite the OE segment would have seen some slowdown here, so I was just trying to understand that how that has panned out no worry sir and what is the outlook here from the Metal Forming division per se?
- Vellayan Subbiah:** Like you know, it is a combination of three sets of business and the good thing is that in two of those three businesses we continued to be very bullish that they are both high growth businesses for us which is the Door-Frames business and the railways business. The Auto Chains business is where we see some uncertainty and what we will see is we will have to get a clearer sense. Definitely we see first quarter being slow, but the other business where we continue to see a good growth is the Fine-Blanking business and actually industrial chains as well. So if you break it down into those five businesses then four of the five will continue to see growth which are Door-Frames, Railways products, Industrial Chains and Fine-Blanking. Auto is the one we will see slowdown and we are consciously trying to reduce that dependence on auto OEMs. So even on auto, we are trying to push, so the good thing is that these other businesses are helping us offset that. The good thing that we see in Door Frames, our largest customer is Hyundai and even though their domestic sales may slow Hyundai's production does not change because they export a lot from our existing facilities.
- Shyam Sundar Sriram:** In the Engineering segment as well the growth rates seems to have slowdown we used to clock more than 20% every quarter now that seems to have cut down, is it temporary thing because of destocking or do you see I mean given our exposure to both passenger vehicle and two wheeler tubes here do we see a little bit of pain in the first quarter as well in that segment?
- Vellayan Subbiah:** Yes we will see that pain in that segment in the sector in terms of revenue growth. The key thing I want to focus on in an environment where a markets slows, is to be focused on that PBT to sales numbers. So in an environment where we think the market slows we still have to look at how do we generate higher PBT to sale and therefore the key question is are we going to be able to hit those numbers as well in the first quarter and that is what we are getting very focused on how to get those numbers and despite a slightly sluggish two wheeler and four wheeler environment that we expect to stay in obviously at least for Q1.
- Shyam Sundar Sriram:** So I mean definitely we have done a excellent job in terms of improving the margins in every segment so congratulations on that sir, and broadly when we talk about 13% to 14% kind of



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revenue growth at the company level what is our underlying auto sector as growth assumption sir assuming the Cycles revenues remains flat, what is the segment growth assumption?

Vellayan Subbiah: In the range of about 7% to 8%.

Shyam Sundar Sriram: And in both in Engineering and Metal Forming is there any scope for market share gains per se and the auto segment, are we getting nominated on new platforms or new product if you can give some color on that?

Vellayan Subbiah: Like I said the big bets we are placing, Shyam Sundar, fundamentally on export it is both kind of higher margin for us and higher opportunity to kind of expand the market. So the ideal thing is we have a large market share in the front forks on the two wheeler side and what we are trying to do like I answered to Sagar is to develop a couple of products that can be equivalent in the global market as well and if we can, that will give us significant opportunity. The other thing that is growing significantly for us and has become quite profitable for our large diameter tubes which basically last year was our first year that we turned profit in that business and we see a lot of opportunity in that business as well both domestically and we are already exporting a significant amount in that business as well. So these go into construction equipment and not based on two wheeler or four wheeler they go into tippers, they go into kind of other hydraulic applications as well.

Shyam Sundar Sriram: How much will be Large Dia as a mix in Engineering sir, any broad ballpark will be helpful?

Vellayan Subbiah: It is about 11% right now but that will grow out of Engineering.

Shyam Sundar Sriram: So this is 11% of engineering correct sir?

Vellayan Subbiah: Correct.

Shyam Sundar Sriram: One thing you spoke about this vision systems what exactly are we planning here I mean optics and are we planning for mirrors or reflect I am not asking you for the exact product line broadly which direction are we planning?

Vellayan Subbiah: You had smoked to the mirror and we have a problem. So Shyam I think at this stage we do not want to get into lot of detail and kind of exactly what we are doing in that business right now, but if you give us a quarter or two we will articulate to give lot more clarity to you. We just want a certain level of confidentiality to be maintained on the exact product.

Shyam Sundar Sriram: And these we are developing with our inhouse capability sir?



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- Vellayan Subbiah:** No, we are working with kind of technology partners from overseas. So, this is definitely a very cutting-edge products for more export markets and we are working with technology partners from overseas for it.
- Shyam Sundar Sriram:** So this is mostly focused on export.
- Vellayan Subbiah:** Initially, it will be almost a 100% export.
- Moderator:** The next question is from the line of Abhishek Ghosh from DSP Mutual Funds. Please go ahead.
- Abhishek Ghosh:** Just couple of things so what we are saying is 13% kind of a revenue growth and assuming Cycle will not do any kind of growth so then it implies that Engineering and Metal formed has to clock 17%, 18% kind of growth because 20%, 25% kind of revenue still comes from Cycle and given what you are seeing the slowdown in auto and other things, does it give you comfort and I know it is a shorter term issues, but for FY20 you will still be able to clock that?
- Vellayan Subbiah:** Yes so I will tell there are obviously kind of multiple factors that go into this Abhishek obviously kind of the biggest factor honestly that swings our revenues and that is why to me kind of revenues is a dangerous matrix is the price of steel because if you take for a example our largest business, our Engineering business and even for our Cycles business a lot of it the final pricing just because the steel pricing is such a large contributors kind of swings it a lot and honestly the price of steel is something that I cannot kind of predict kind of 100% accurately for the year. So I said that we have to deliver the bottom line growth, but then also ensure that kind of volumes are growing so that I can deliver and we can continue to deliver this overall top line and bottom line growth over a three to four year period, but to answer your question listen how much as a number will I able to hit right, we are going to hit a 13% or 14%. Honestly kind of swing in steel prices itself will move 3% or 4%. So that way you could have a range that kind of goes from 10% to 16% right, but our belief right now is that we will definitely be able to hit that number. Now if steel prices go down then it is a bit of challenge, but on a volume basis and a PBT basis that does not change things because whether the steel prices will go up or down we will be able to hit the PBT that we are committing to and the PBT growth and the PBT the sales ratio are as important to me as the top line growth numbers.
- Abhishek Ghosh:** Just to get a number overall because you are looking at infra, you are looking at railways the other new divisions as well sir auto dependence over a period of time which will be close to 70% today should in three, four years' time come around to something like 50% is that something that you endeavor?
- Vellayan Subbiah:** If you take domestic auto I want to segregate that a bit because for example when we look at Engineering and get focused on export, it is a different kind of set of parameters that we look



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at because the market share we have there are so tiny and no matter what happens we will always get our exports. Similarly, when we start looking at some of the newer age products, our market share again are so small that our ability to expand no matter what happens to the auto market is significant. So, when I look at auto, let me just say the first step obviously is like we have a very high dependence on domestic two-wheeler. Now do we expect that to go down overtime, the answer is yes because we have to spread and kind of reduce our dependency risk on one particular channel and spread it across others. So when I look at that kind of numbers will it move by 15%, 20% over the next three, four years I will say yes, but overall auto it depends because I am very comfortable with the export because those numbers have never moved down for us even in down Cycles globally because our market shares are so small and I see a lot of opportunity to improve on that. Also, for example like I was saying with large diameter we started doing exports in terms of construction equipments and tippers and all of that. Now we see because our market share is so small, we see a lot of opportunity for expansion in those segments. So that is basically the way we are looking at it and not looking at just auto overall. But kind of breaking that down and looking at more granular cross section and seeing what are the opportunities in which we can develop a low market share and then grow significantly.

Abhishek Ghosh: Just one more thing in the last concall you had said the production schedule from the auto OEMs is still not kind of finalized and you will be heading on your CAPEX plan depending on that so is that kind of finalized for FY20 and if yes what would be that number and breakup of that?

Vellayan Subbiah: You are saying what will be CAPEX be?

Abhishek Ghosh: Yes.

Mahendra Kumar: It is close to 275 to 300 crores.

Abhishek Ghosh: That is FY20?

Mahendra Kumar: Yes.

Vellayan Subbiah: That also involves some of the new projects for growth.

Abhishek Ghosh: Yes for the new products that you are looking at.

Vellayan Subbiah: That is right.

Abhishek Ghosh: And that CAPEX what was it for FY19?



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Mahendra Kumar: 172.

Abhishek Ghosh: In the TMT bar segment how are you looking in that, how has been the traction so far and how should one look at it two or three years down the line in that business?

Vellayan Subbiah: Yes it is very positive I would say that the traction we would basically focus on Tamil Nadu and the traction we received there is actually I would say is fantastic and so right now we are just focused on creating a brand in the right way being known as more of a premium player and creating that differentiation. I am very bullish on that business so we start looking three years out.

Abhishek Ghosh: And just one last thing from my side if you look at the employee expenses in this quarter has kind of come off it is almost about 10% lower is there a function of employee cost or the fixed cost reduction that you are looking at the initiatives or is there any one off or how should one look at it?

Mahendra Kumar: It is a combination actually, one is the reduction of manpower particularly at the top end. Second thing is there was year end actuarial valuation based on which we have reversed gratuity / leave encashment expenses.

Moderator: The next question is from the line of Richard Dsouza from SBI Mutual Fund. Please go ahead.

Richard Dsouza: I just wanted to ask you one question on the overall business if you look at way you are taking around things you are focusing more on cash flows and trying to get your fresh air of profitability, but once that is done if you look at the businesses where you are nearly more than 50% of your businesses can be deemed as low growth to middling growth kind of thing. So to take that point ahead are you open for any inorganic acquisitions because we will see increasing free cash flows in the years coming ahead. So what would be your strategy with that kind of cash flow?

Vellayan Subbiah: So obviously our perspective is that first we want to get there right. We have stated that we want to get debt to under net working capital so I definitely want to first get there. You are right, we will take a lot of our business tend to be middling levels of growth. So what we look at is Cycles is predominantly our low growth business which means kind of a business in which I see flat like pretty much no growth at all, but if we take our other businesses like even our Engineering, our core businesses, we are seeing growth of about 7% to 8% in the base market, but you combine that with a fact that we are looking at exports and all that and we are able to get ourselves to about 12% number. Now the question is how do we kind of breach the gap more than that right. Now to your question on inorganic what I think when there are like distressed deals where we see an opportunity in a business that we are in where we can get something at substantially lower price. We are not going to go out and pay full price for



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something in the current environment. What I like to do obviously kind of overtime is develop a really strong balance sheet that is kind of good enough to do something big when the opportunity arises, but I do not have a balance sheet that is strong enough to do that yet. So I think it is a degree of freedom that we have not earned ourselves yet. I think if we can get a couple of years of strong performance down the line bring out debt down significantly that could give us the option to do that at that stage we could be open to something, but right now we have not earned the right to do that yet Richard.

Richard Dsouza:

Just one book keeping question what would be the debt at the end of the year?

Vellayan Subbiah:

487 crores is our net debt. It is obviously like we said the focus is to bring that down below networking capital, let us see we are able to achieve that this year itself that will be a great thing, but otherwise it might go on to next year.

Moderator:

The next question is from the line of H.R. Gala from Finvest Advisors. Please go ahead.

H.R. Gala:

Sir we were talking about the inorganic opportunity how is Shanthi Gear is shaping up because if performance has been quite good with traction in margin and 10% type of growth, so what do we look at Shanthi Gears over a period of time?

Vellayan Subbiah:

So I think the Shanthi Gears expectation obviously we are trying to kind of pull it in that kind of trajectory from a revenue and from profit perspective I think we can expect in that 15% to 20% range for the revenue and the profit growth for Shanthi.

H.R. Gala:

But have we launched any new product since Shanthi?

Vellayan Subbiah:

Shanthi is the kind of business where you are constantly coming up with new products because the lot of the business is bespoke in custom if you are asking for example are we getting into planetary gears and stuff like that, that answer is no at this stage, but in the existing businesses itself loose gear & pinion and in helical and all that there is enough growth opportunity and new products constantly have to come up because it is a very bespoke or custom business.

H.R. Gala:

Now sir talking about the optic and vision business is it related to auto or non-auto?

Vellayan Subbiah:

Yes we will disclose all that kind of information within two quarters.

Moderator:

The next question is from the line of Nishit Shah from Edelweiss. Please go ahead.

Nishit Shah:

So I had a question with respect to the metal division so on a top line basis the division is doing extremely well, but we have seen a sharp decline in the margin in this quarter of around 200 bps, so any specific reason for that?



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- Vellayan Subbiah:** So again the challenge that we had in this quarter was the Auto Chains business and that is what kind of cause the margin decline and like I said the kind of focus on that business is how in auto how to kind of get some of those other business whether it is Metal Forming, railways, Fine-Blanking, industrial to grow.
- Mahendra Kumar:** There is a steel price recovery also which is still under negotiation with some of the OEMs which might happen in 19-20.
- Vellayan Subbiah:** So that is basically it is a first event that kind of will affect the overall margin of the product.
- Nishit Shah:** So basically, the steel price has been recovering, but we have not been getting the benefit of the same is that right?
- Vellayan Subbiah:** When he talks about steel price recovery that basically means that the steel price adjustments that are made sometimes tend to be after the quarter, when you can get that price adjustment from the customer. So there are two sets of things that have to be done. One is it tends to be back to back arrangement between the customer and with the steel mills. So both of those sometimes that settlement kind of goes beyond the end of the quarter.
- Nishit Shah:** So we would be probably seeing margin improvement in the next quarter like going forward?
- Vellayan Subbiah:** Yes definitely that is the intent with that business yes.
- Nishit Shah:** In general you mentioned at the beginning of the call that we have been shifting our suppliers in the steel division to other Chinese players for all the division, so could you elaborate on that front as well what kind of margin improvement we would be seeing?
- Vellayan Subbiah:** So what we mentioned is we are developing more suppliers for steel I did not say that we are shifting given the fact that there is a duty on the import of steel and will continue to be dependent on Indian steel. We just want to develop alternate sources of supplier. So that if there is kind of the opportunity to get more Chinese steel we will, but right now we are predominantly domestic based in terms of our sources or supplier for steel and there we are kind of dependent obviously on three large vendors that source steel for us right now.
- Nishit Shah:** So would we be seeing any kind of expansion in the gross margins going forward?
- Vellayan Subbiah:** So obviously I think we have articulated this that this whole PBT expansion which is partly driven by gross margin expansion is one of the key focus areas for us and part of that kind of coming from different kinds of cost reduction, but there is also productivity improvement, quality improvement, yield improvements. There are several factors that go into that and



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sourcing of steel definitely is a large swing factor for us. So we continue to see what we can do to improve that.

Nishit Shah: And another question was with respect to the Cycle division as you mentioned that this year the institutional sales has been lower compared to the previous year and that is primarily the reason why the sales on a Cycle division on a front is dipping. So how would be improving our sales in this division for improving profitability because over the last three quarter the profitability was there but this quarter again we turned profit division.

Vellayan Subbiah: Some of the things that cause that which is basically there was inventory write off.

Mahendra Kumar: There was some inventory cleanup which we did during this quarter.

Vellayan Subbiah: But definitely there is focus on this business but we do not see much sales growth, we do not see any sales growth coming from the Cycle business. Our focus on this business is on increasing the profitability of the business right now and there we see a lot of opportunity, that opportunity is a combination of sourcing, improving the logistic efficiencies, reducing the overall inventories and basically kind of coming up with new and innovative design that we can take to market that expands kind of our specials versus the focus and the standards by alternating that mix. So those are our four focus areas and we do believe that will allow us to increase the profitability of that business in the 1920 financial year.

Moderator: The next question is from the line of Atul Mehra from Motilal Oswal. Please go ahead.

Atul Mehra: In terms of growth like you highlighted about 17% odd growth that you target, if you were to think about growth sir the next three year instead of one year, what kind of cost saving still in the pipeline that you would see translate in the three years and consequently if you were to grow revenues at the 17% what kind of growth in your internal estimate you would think at the EBITDA or PBT level?

Vellayan Subbiah: In the next three years, we will move the PBT from 7% of sales to 10% of sales. So there is still 3% more percentage points there which is basically 42.8%.

Atul Mehra: That assumes complete deleveraging on the balance sheet side because you have debt which is 450 crores now so would that assume complete retirement of the debt in three years' time?

Vellayan Subbiah: Yes if you take it I mean obviously this is kind of looking like for like without any other kind of assumption, but yes if that is the case that will happen.

Moderator: The next question is from the line of Abhishek Ghosh from DSP Mutual Fund. Please go ahead.



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Abhishek Ghosh: Just one thing wanted to confirm so we are already into three new businesses will you stop at that and take a relook at that how are they progressing or will this be a continuous process say getting into new business every six months, three months how are you looking at this segment?

Vellayan Subbiah: Yes so Abhishek so this is a good question. It is going to be a continues process, the way we look at it is this right which is we see it is like we see a probability of success that kind of associated with these businesses. So what we are doing is basically taking a portfolio view where we do not spend massive amounts and capital expenditure in this businesses going in. Once they start kind of scaling well, I think everybody is learning from this world of VC and PEs. Abhishek when they start scaling well then, we will basically start pumping a lot more money into the growth of this business. The first is really proving out the model which is what we are going to do with each of these businesses. So we will take lower spends throughout the model. Once the model is proven then we will pump in more money to scale that.

Abhishek Ghosh: And is there a dedicated team which is working towards this new businesses because earlier this was not there so have you kind of formed the new team?

Vellayan Subbiah: So, there is almost like three or four dedicated teams on this. They are evaluating, developing constantly kind of there is a whole pipeline. So definitely we have to look in what our growth is going to be we have articulated that we do not want to be in squished between so heavily between steel players on one side and large auto customers in the other side which means that we have to have a constant pipeline because only that will allow us to change this mix overtime.

Moderator: The next question is from the line Kashyap Pujara from Axis Capital Limited. Please go ahead.

Kashyap Pujara: Mr. Vellayan just a couple of questions one is while to summarize what we basically have discussed in the last hour as far as growth is concerned that we are looking at overall endeavor of 17% growth which is a mix of exports, domestic and new businesses overtime and with 7% to 10% PBT margin scale out. Broadly that would definitely drive profit growth of more than 20% each year if I were to look at it of this scenario planning out over 5 years, so would it fair to assume that given the current scenario in the market maybe the first couple of years would be more of efficiency improvement, cost reduction lead growth and maybe the top line growth would be there, but it would not be at that number and on the later on years it would be more a function of driving top line and sustaining margins would that be a fair assessment for the audience today.

Vellayan Subbiah: Yes Kashyap I think that is absolutely right. See basically what I want to give you a sense that you are kind of breakdown the growth side of the story into 3 tiers. We breakdown kind of what is a market growth then what we would call kind of above market growth that is driven market share, new product, new geographies and then new lines of revenues or new

businesses. So basically the way we look at that is kind of we think that market growth is in the range of 7% to 8%. The growth in existing businesses that comes from new products, new geographies and gains in market share as about 5% to that mix and then the rest has to come from new businesses, but that obviously would not kick in immediately in the years it has kind of become more apparent on the out-years.

Mahendra Kumar: So you are absolutely right so that the revenue growth kickers will start kind of and the compounding of effects of that will start kicking in more in the out-years than in the in-years and in the in-years we still see enough of the sufficiency reduction, efficiency improvement to allow us for that margin expansion which we continue to believe will help us in the in-years as well. So yes your assessment is very accurate.

Kashyap Pujara: Lastly one question regarding the market environment we are definitely seeing slowdown in auto and in a way you can say that auto is going through his own Y2K moments given Bharat Stage VI and everything. Now the worry here is that while the numbers recently are obviously soft and most of the analyst or even companies broadly expect things to recovery in the second half. Now I wanted to pick your brains on do you see this more as a transient issue or do you actually see in your discussion with so many companies you deal with that is it a real problem which can persist maybe throughout the year or do you see this more like a transient issue which will correct itself in a quarter or two?

Vellayan Subbiah: Yes so I think that Kashyap we have always said that anyone of our guess is kind of like a coin flip right, but if you basically take I tend to be kind of more in this school of saying it is transient and believe that once BS-VI starts kicking in we should start seeing growth in the second half that kind of sense, but I honestly think that it is very difficult for anybody to predict this thing. So it is pretty much a conflict what we have to look at how we as management can deliver whatever that outcome there right whichever way the market goes and that is always been our focus so that is what we are looking at which is there the down market and the sluggish down market continues what do we need to do to basically be able to show at least the bottom line growth numbers.

Kashyap Pujara: I heard you saying on Cycles business that we will 5% margin not at PBIT in the current year, did I hear it right that we will get to 5% PBT I mean PBIT on Cycles with this year?

Vellayan Subbiah: I will say the question was on EBITDA expansion number I think that was what we are talking about. I would say that at a PBIT level we are looking at kind of getting to like a 3% to 4% numbers at least.

Moderator: The next question is from the line of Shyam Sundar Sriram from Sundaram Mutual Fund. Please go ahead.



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- Shyam Sundar Sriram:** Sir, can you just talk about the utilization in different segment Engineering Metal Forming given that we are increasing our CAPEX if you can broadly highlight where are we adding capacities that would be helpful sir?
- Vellayan Subbiah:** So I think that we see actually obviously utilization depends like on the chains business our utilization is kind of is dropped significantly in this last quarter, so there is a lot of headroom for growth there. In terms of our Engineering business the utilization was about 85% range and we are adding capacity there. So it should allow us to kind of significantly increase especially if in Q2 we do a market pickup.
- Shyam Sundar Sriram:** Sir when you talk about market pickup you are talking about the domestic market sir or are we adding capacity to support our export growth how do we look at it?
- Vellayan Subbiah:** We are adding capacity for exports growth just to give you a sense that capacity will take almost 12 months to add. We placed orders for equipment for example the stuff has never been like I said lot of this not been done in India before so it is going to take 12 months for us by the time kind of the equipment suppliers get it to us and install it here it is going to 12 months. So that will only kick in the 20, 21 year, but what we are doing in the meanwhile is shifting our mix from so any growth that we are getting on the export side we are basically kind of altering our mix to we are not obviously going to kind of affect our front folks suppliers and all of that, but with some of the other products we might kind of move some of that into the export in terms of mix because we end up getting it helps us overall in terms of profitability as well.
- Mahendra Kumar:** We are also making small investments to remove the bottleneck in various plants across India.
- Moderator:** Ladies and gentlemen that was the last question for today. I would like to hand the conference over to Mr. Kashyap for the closing comments.
- Kashyap Pujara:** Thank you everyone and thank you to the Management of Tube Investment patiently answering all the questions that were posed, like forward to hosting you again in the next quarter and look forward to stellar set of numbers as usual. Thank you so much.
- Moderator:** Thank you. On behalf of Axis Capital Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.