



“Tube Investments Q4 FY2022 Conference Call”

May 13, 2022



ANALYST: MR. ANUPAM GUPTA – IIFL CAPITAL LIMITED

**MANAGEMENT: MR. MAM ARUNACHALAM –CHAIRMAN
– TUBE INVESTMENTS**

**MR. VELLAYAN SUBBIAH - EXECUTIVE VICE CHAIRMAN –
TUBE INVESTMENTS**

**MR. MUKESH AHUJA – MANAGING DIRECTOR – TUBE
INVESTMENTS**

**MR. MAHENDRA KUMAR – EXECUTIVE VICE PRESIDENT &
CHIEF FINANCIAL OFFICER – TUBE INVESTMENTS**

**MR. K. R. SRINIVASAN – PRESIDENT, METAL FORMED
BUSINESS – TUBE INVESTMENTS**

**MR. K.K. PAUL – MANAGING DIRECTOR, TI CLEAN
MOBILITY AND EX-PRESIDENT MOBILITY BUSINESS –
TUBE INVESTMENTS**



*Tube Investments
May 13, 2022*

Moderator: Ladies and gentlemen, good day and welcome to Tube Investments Q4 FY2022 Conference Call hosted by IIFL Securities 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, 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 call over to Mr. Anupam Gupta from IIFL Securities. Over to you Sir!

Anupam Gupta: Thanks and welcome everyone to the Q4 conference call for Tube Investments of India. From the management, we have Mr. Vellayan Subbiah, Executive Vice Chairman, Mr. MAM Arunachalam Chairman, Mr. Mukesh Ahuja, who has taken over as the Managing Director recently, Mr. Mahendra Kumar, EVP and CFO of the Company, and Mr. K. R. Srinivasan who heads the Metal formed business as well as Mr. K.K. Paul who heads the Mobility business. To start off the call, I will hand over to Mr. Vellayan for the opening comments and then we can open up for the Q&A. Over to you Sir!

Vellayan Subbiah: Thanks Anupam. The Board met yesterday and approved the financial results for the quarter and year ended March 31, 2022. The Board had declared an interim dividend of Rs.2 per share in February and now have recommended a final dividend of Rs.1.50 per share. The revenue for Q4 was at Rs.1,735 Crores compared to Rs.1,480 Crores for the same period in the previous year and revenue for the full year were at Rs.6,359 Crores compared to Rs.4,256 Crores for the previous year.

The PBT after exception was Rs.173 Crores as against Rs.162 Crores for the same period in the previous year. PBT for the year was Rs.628 Crores compared to Rs.359 Crores for the same period in the previous year. ROIC is 46.5% for the year compared to 35.1% in the previous year. Cumulative Free Cashflow was Rs.205 Crores which is at 43% was lower than the same period of the previous year. This is predominately because of the free cash flows in the previous year was higher was due to lower NWC level in terms of how we started the year. In terms of overall business, the Indian Auto industry has continued to kind of face challenges.

Engineering revenue was at Rs.1,030 Crores compared to Rs.854 Crores and PBIT was at Rs.103 Crores as against Rs.92 Crores in the same quarter which is a growth of 12% and full year revenue was at Rs.3,868 Crores versus Rs.2,317 Crores and the full year profit was Rs. 376 Crores versus Rs. 251 Crores over previous year same quarter, which is a growth of 50%.

Metal Formed revenue was at Rs.336 Crores compared to Rs.335 Crores and PBIT was Rs.39 Crores as against Rs.37 Crores which is a growth of 5% and full year revenue was at Rs. 1,240Crores as against Rs.1,032 Crores and that was basically a profit of PBIT of Rs.136 Crores with a growth of 81% and the revenue in Mobility business for the quarter was Rs.249 Crores versus Rs.301 Crores



*Tube Investments
May 13, 2022*

last year. The bicycle business has been down and PBIT was Rs.13 Crores compared to Rs.17 Crores in the previous year corresponding quarter. The revenue for the full year was at Rs.963 Crores compared to Rs.847 Crores. PBIT for the full year was Rs.55 Crores as against Rs.44 Crores.

Revenues in Others segment for the quarter was at Rs.194 Crores compared to Rs.82 Crores. The segment also includes trading revenue for the sale of TMT bars and PBIT for the quarter was at Rs.4 Crores which was the same as previous year and revenue for the full year as at Rs.562 Crores versus Rs.263 Crores and profit for the full year was at Rs.36 Crores versus Rs.13 Crores.

In terms of key development, last year, the Company had subscribed to Rs.17.52 Crores share warrants of CG Power Industrial solutions Ltd for Rs.150 Crores and had paid Rs.37.5 Crores being 25% of the total warrants subscription amount. During the quarter the Company exercised 9 Crores share warrant of CG Power out of the total warrants of 17.5 Crores and paid Rs.57.78 Crores representing the balance 75% of consideration for the volumes exercise.

Right now the Company holds 58% on a fully diluted basis of CG Power and also the corporate guarantee of Rs.1,365 Crores in favor of the lenders of CG Power has been released. During the quarter the company has incorporated a wholly owned subsidiary TI Clean Mobility Private Limited ("TICMPL"), to pursue and engage in Clean Mobility and electrical three wheeler manufacturing.

As part of the Clean Mobility business TICMPL also acquired a 70% stake in Celestial E-Mobility on March 4, 2022., which is in the business of manufacturing electrical tractors. CG Power and Industrial a subsidiary in which the company holds 58% stake had consolidated revenue of Rs.1,507 Crores during the quarter as against Rs.1,118 Crores in the corresponding quarter of the previous year. PBT for the quarter was Rs.139 Crores as against Rs.19 Crores in the corresponding quarter of the previous year. Consolidated revenue for the full year was Rs.5,561 Crores compared with Rs.2,964 Crores for the previous year. The consolidated PBT is Rs.528 Crores as against a loss of Rs.117 Crores in the previous year. Shanthi Gears registered revenue of Rs.104 Crores for the quarter as against Rs.72 Crores. PBT for Q4 was at Rs.19 Crores as against Rs.12 Crores and the revenue for the full year was at Rs. 337 Crores as against Rs.216 Crores and PBT for the year was at Rs.59 Crores as against Rs.26 Crores. On a consolidated basis we have Rs.3,415 Crores in revenue and PBT of Rs.295 Crores for the quarter and for the full year it was Rs.12,525 Crores in revenue and the PBT was at Rs.1,135 Crores.

Commenting on the financial results Mr. M A M Arunachalam the Chairman said the results of the quarter showed a steady performance for the Company even in the wake of challenges on account of supply constraints, lower domestic demand, and increase in fuel and commodity prices, part of which also was a result of the war in Ukraine. Exports have consistently delivered good growth in tubes and the industrial chain businesses. The Company is taking various measures to mitigate the impact of the



Tube Investments
May 13, 2022

above challenges in the business. Our new initiatives in the Clean Mobility business will bring diversification in the existing portfolio of our business to fuel growth. With that I will stop and will be happy to turn it over for questions.

Moderator: Thank you so much. We will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. We take the first question from the line of Vimal Goel from Union AMC. Please go ahead.

Vimal Goel: Thank you so much for the opportunity. Sir my first question is regarding your margin performance? I am not sure if you have sort of addressed this in your opening remarks I joined a bit late? In the other segment our EBIT margins have fallen quite sharply as compared to other segments sequentially for example Engineering might have grown, but at 6.6% EBIT and others have fallen too? Just wanted to get a sense on what has transpired there and what is the outlook? Secondly just if you can give any update on some of the businesses that we are incubating? How are they scaling up? We have been talking about these newer businesses for about a year now so any update over there would help? Thank you.

Vellayan Subbiah: So, the other segments the big change is how we report the TMT bars revenue. That is what is causing the EBIT to drop because the TMT bars now is getting reported as revenue item instead of just a commission item so that is the cause for the movement there.

Mahendra Kumar: So, there is no drop in profits. It is just that the denominator went up because revenues are reported there.

Vimal Goel: What will be the sustainable margin then in this business now going forward? Are we planning to increase manufacturing portion there? How should we look at this?

Vellayan Subbiah: The TMT bars will continue to be trading only. We will not be manufacturing them in-house if that is what you are asking.

Vimal Goel: Sir what should be the steady set margins there Sir?

Mahendra Kumar: It is difficult to guess here. This segment comprises of industrial sales also which is one of the most profitable businesses for us so there the margins continue to be in the same range depending upon the TMT revenue comes up in future in terms of volume, the overall margins may keep fluctuating.

Vimal Goel: Got it Sir and Sir anything on the new businesses?



Tube Investments
May 13, 2022

- Vellayan Subbiah:** I think like we said on the new business these are not a material part. It is not material part of overall revenue yet and the business will take time to ramp up.
- Vimal Goel:** Sure Sir. Sir and just on the overall outlook on the Engineering space, exports have done exceedingly well for us during this year? It is a two part question What is the overall outlook here in terms of the industry that we are serving? What are we hearing from our end users over there and secondly out of the growth that we have reported this year how much of that would have come from maybe a pure volume growth and how much of the growth would have come from the pricing increases that we have taken to offset the commodity cost pressure if you can break that up for me please?
- Mukesh Ahuja:** Yes, Mukesh this side. As you are aware, since the time we have started the exports, it has been almost four to five years of the good work and now the OEM approval has always been taking place and we foresee on exports outlook is going to be strong only but however we have seen the current quarter and next quarter because of the buildup in the inventory. There can be a little bit drop but overall outlook looks to be strong only and to answer your question 60% of the growth is coming because of the volume growth and may be 30% to 35% growth is coming because of the selling price increase we have on the raw material issues.
- Vimal Goel:** Perfect. Thank you so much Sir and all the very best for FY2023.
- Moderator:** Thank you. We take the next question from the line of Abhishek Ghosh from DSP Mutual Fund. Please go ahead.
- Abhishek Ghosh:** Thank you so much for the opportunity. Sir if you can just broadly start with effective April 1, 2022 the changes that we are seeing in terms of Mr. Mukesh has been elevated as the MD and Sir you have moved in as Executive Vice Chairman so is there a change in role or it is status quo if you can just broadly start with that?
- Vellayan Subbiah:** The basic intent now is that Mukesh will be primarily focused so both of us will talk about kind of where we have been but Mukesh is primarily focused on all of the existing and what I would call the erstwhile businesses of the company the Engineering business, the Mobility business, Industrial chain business and our Metal formed businesses. Mukesh will take primary charge for those businesses and the growth around that I will start playing a broader role in terms of the newer businesses. Also, if you saw that we have taken out Kalyan Paul who used to look after the mobility business to become the head of the Clean Mobility business so I will be spending more time on growth and new initiatives and Mukesh will be spending more time on existing businesses. It is not to say that we are going to separate that like 100% but that is the broad thinking because both requires significant purpose and which requires separate people to be focus on each of the area. Does that provide clarity?



Tube Investments
May 13, 2022

- Abhishek Ghosh:** Thank you so much for that Sir and Sir if you can just broadly talk about the timelines of the EV launches both in the three-wheeler and tractor how should one look at it from timelines and what are the experiences as of now the product acceptance and in market feedback that will be helpful?
- Vellayan Subbiah:** The three-wheeler is one that we can make more statements about because we are far along that path. On the three wheeler right now we are planning for a launch hopefully by about September and we are kind of quite far along the homologation process there with the vehicle and the plant is now pretty much ready. So, we have very good reception from the initial set of dealers and potential customers we have spoken to, we are quite excited about that and like we have said the plan to launch a product in the market by September. On tractor I think first we have to get through the homologation process and I think it will be able to give more deterministic time as to when we will launch that after we finish homologation. We are going to kind of get into homologation and submit the homologation by the end of July.
- Abhishek Ghosh:** Sir just in terms of the overall the tubular business and the other parts of the business mostly for Engineering it will be relevant is the kind of price hikes that you have taken for the entire year and is there some price hikes which has not still kind of cornered by OEM which will be kind of pushing for given the steel price increase some color will be helpful?
- Mukesh Ahuja:** Like you are aware we are having a good arrangement with all the OEMs for backup for the steel price increase what it has happened. It is a question of little bit lag, sometimes three months or six months. We are able to recover that fully but however the challenge is whatever the inflationary cost are arising on account of fuel and the yield there we are going through some negotiations with even the OEM as well as we are planning cost reduction inside the company to mitigate even that impact. I hope that answers your question.
- Abhishek Ghosh:** Sir what will be the cumulative hike that you have taken for the year that you would have got?
- Mukesh Ahuja:** If we see the last two years I think the raw material prices have gone up by almost 100%.
- Abhishek Ghosh:** You would have got a corresponding 30% to 40% kind of a hike? Is that a fair thing to assume?
- Mukesh Ahuja:** More than that.
- Abhishek Ghosh:** So basically the entire growth is coming because of price on a volume front you will still be lower?
- Mukesh Ahuja:** No exports mitigates that whatever domestic market degrowth is there that we have migrated by doing more exports so overall there is a growth in the volumes also for the company.



Tube Investments
May 13, 2022

- Abhishek Ghosh:** Great and Sir just one other thing if I look at the other expenses as a percentage of revenue in the current quarter seems to have moved up a lot? Is there a freight element or is it because of the TMT bars the way you are recognizing that revenue? What is the exact reason for that?
- Mukesh Ahuja:** Which period are you comparing with Abhishek year-to-year or Q4 to Q4.
- Abhishek Ghosh:** Sequentially Sir?
- Mukesh Ahuja:** Sequentially means Q4.
- Abhishek Ghosh:** Yes?
- Mukesh Ahuja:** This is just scale of operations. There is nothing extraordinary or anything special there.
- Abhishek Ghosh:** I have a few more questions. Probably I will come back in the queue and best of luck to the entire team. Thank you so much.
- Moderator:** Thank you. We take the next question from the line of Maitri Parikh from PI Square Investments. Please go ahead.
- Maitri Parikh:** So my question regarding EV has been answered? Now I have one more question that what will be the exports of the total revenue?
- Vellayan Subbiah:** Sorry cannot hear you very clearly. exports?
- Maitri Parikh:** Yes exports?
- Mukesh Ahuja:** For the company as a whole it is around 12%.
- Maitri Parikh:** Company as a whole?
- Vellayan Subbiah:** Q4 it was around 12%.
- Maitri Parikh:** And FY2022 would be around?
- Vellayan Subbiah:** May be a little bit higher around 14% to 15%.
- Maitri Parikh:** One more question that we have subsidiaries in Sri Lanka as well right so because of this economic crisis in Sri Lanka what is the condition and where do we stand as part of that subsidiary?



Tube Investments
May 13, 2022

- Mukesh Ahuja:** There is no immediate impact because the subsidiary of Sri Lanka is meant only to cater to our supply and requirements. Imports and exports denominated in U.S. Dollar so there is no impact. There is very little which is getting added to the value added because of the local operations.
- Maitri Parikh:** One last question that what will be the market here in the bicycle segment?
- Mukesh Ahuja:** I think it was around 27%.
- Maitri Parikh:** Okay that is it from my side. Thank you.
- Moderator:** Thank you. We have the next question from the line of Nishit Jalan from Axis Capital. Please go ahead.
- Nishit Jalan:** Thank you for the opportunity. Sir my question is on your share of auto business? Over the last two years auto industry has been in down turn while you have done very well in exports and probably in non auto as well so just wanted to ask what will be the share of domestic auto business in your overall revenues now and if you give some broad color within the engineering and metal sub segment it will be very helpful?
- Vellayan Subbiah:** Broadly at the company level still in the range of 55:45 domestic and auto. It will be higher in metal formed products may be around 70:30 and then engineering also I think it will be in the range of 55:45 or 60:40 or 70:30.
- Nishit Jalan:** So you are saying 55% of total revenues are domestic revenues? Did I hear that correct Sir?
- Vellayan Subbiah:** At the total company level.
- Nishit Jalan:** 55% right?
- Vellayan Subbiah:** Yes.
- Nishit Jalan:** Within the segment it is closer to engineering and metal formed is closer to 65% to 70%?
- Vellayan Subbiah:** Yes.
- Nishit Jalan:** So that means cycles you are not counting as a part of auto right?
- Vellayan Subbiah:** Yes, cycle is not part of autos. We have the other industrial business all those things which are not part of auto.



*Tube Investments
May 13, 2022*

- Nishit Jalan:** Sir just if I can get slightly more color within the metal formed business especially the automotive chains, I understand that in both tube and chain business we are a predominant player so are we well spread out across all two wheeler EV OEMs or there is some gaps we are not present across certain OEMs and that could be an opportunity for us in the next few years both on the auto two wheeler chain, door fronts as well as on the tube business?
- Mukesh Ahuja:** Sir can you please repeat it.
- Nishit Jalan:** Sir basically what I am saying is you have three different sub segments within autos? One is the automotive chain in two wheelers, the second is the door frame for cars and the third is overall tube business where you cater to all the segments? What I wanted to understand was are you well spread out across OEMs within segments or do you think that we will have an opportunity to penetrate into newer OEMs where we are not present currently and we are gaining traction there and there could be some good opportunities. If you can give some color without naming the customers also that will be very helpful?
- Mukesh Ahuja:** Just to give you an idea whichever businesses we are in whether it is chains or whether it is endorsements we are having a good spread across all the OEMs. Even in the ensuing business our spread is towards two wheeler, passenger vehicle, commercial vehicle and even the three wheelers we are widely spread. That gives the advantage to us as a company in terms of if one segment is not doing well enough the other segment is doing like the case in this quarter commercial vehicle segment is doing pretty well but two wheeler there is a little bit slow down that helps to perform us as a portfolio.
- Nishit Jalan:** Sir my last question is all the TI II activities that we are present currently what is the cumulative investments that we are already done over the last two years?
- Mukesh Ahuja:** TI II not much actually may be around Rs.50 Crores.
- Nishit Jalan:** Total investment including the EV, the optic lens the truck body building all the benefits combined what will be the total investments that we would have done so far?
- Mukesh Ahuja:** They are around Rs.210 Crores to Rs.220 Crores.
- Vellayan Subbiah:** Rs.160 Crores of that is in electrical vehicles and Rs.50 Crores is in everything else.
- Nishit Jalan:** Thank you so much.



Tube Investments
May 13, 2022

- Mukesh Ahuja:** Just one more correction on your earlier question you were talking about the auto industry intensity in MFP. That will be close to 90%.
- Nishit Jalan:** Sorry Sir I missed your comment? Can you please repeat it?
- Mukesh Ahuja:** To your earlier question on auto industry intensity on metal formed products segment, it will be 90% to 93% if you are taking only the MFPD segment.
- Nishit Jalan:** Could you be able to give some color on what will be after markets within that and I will assume that railways as a business has come down and because of which the proportion of auto business has gone up in the metal formed business right is that correct?
- Mukesh Ahuja:** We do not give that sub-sector information.
- Nishit Jalan:** No worry. Thank you so much.
- Moderator:** Thank you. We take the next question from the line of Anupam Gupta from IIFL Securities. Please go ahead.
- Anupam Gupta:** Sir I have few questions on each segment so in the opening remarks you mentioned that cycles have been slow and which is obviously affecting in the segment numbers but how should we look at it from let us say next couple of years perspective? Do you think domestic market will improve or will remain subdued and how much can exports off set that as they pickup?
- Vellayan Subbiah:** Paul you will take that question.
- K.K. Paul:** I think overall the game plan is to see how we can keep gaining share. Even this year if you have seen Mahendra mentioned 27% market share so we have gained about 2% market share this year that has been dropping, so in relation to the market we have definitely performed better although the volumes have been lower because of the absolute drop in the industry volumes. We have dropped much lesser than that, but having said that I think the way we are wanting to progress is to see the newer opportunities of growth particularly in exports, then in e-commerce, in fitness and also in e-bikes so this presents big opportunities for us and this will offset partly the drop in the trade domestic market and would help us to secure the plans that we have been making so lot of action has also been initiated over the last six months to see how we can scale up the exports and a lot of that is in the stage of negotiations, sample submissions, customer visiting us because a number of customers could not visit us due to COVID which is slowly being relaxed international travel, etc, and we hope to report much better numbers in the export scenario and particularly also the e-bikes scenario in the coming quarters.



Tube Investments
May 13, 2022

- Anupam Gupta:** Sir just to get one detail what will be the share of exports in cycle in this year broadly?
- K.K. Paul:** The share of exports now will be about close to 5% but moving forward this figure will move up quite dramatically if we can actuate the plans that we have made and some of the customer connect that we are now establishing which are in different stages of maturity.
- Anupam Gupta:** Sure that helps. The second question is related to the metal formed product business so obviously railways have been muted for the last couple of years? How do you see it improving let us say we have an announcement for Vande Bharat trains quite a few so how do you see that business picking up? How soon can we see that in our numbers?
- Vellayan Subbiah:** K. R. S. you will take that question.
- K. R. Srinivasan:** As we speak the railways is preparing a lot on this Vande Bharat project. We see good traction by Q2 and Q3, we hope that the business will see improvement
- Anupam Gupta:** Understand and Sir one last question on the engineering product business. So in engineering product last quarter you had said that you will basically be looking to increase the capacity for Large Dia tubes so has anything been finalized there or what sort of capacities should we expect there because it was running at a higher utilization as I understand?
- Mukesh Ahuja:** Yes, we have taken some steps to increase the capacity at large which is as of now there is a marginal increase however we are studying even for the much bigger capex in this segment of the business and which we will take a call in the coming one or two quarters.
- Anupam Gupta:** Sir just one last question on the share of exports in let us say specifically engineering products and industrial chain what should that be?
- Mukesh Ahuja:** In engineering business it is about 20%.
- Anupam Gupta:** For industrial chain Sir?
- Mukesh Ahuja:** Industrial chain will be around 40%.
- Anupam Gupta:** Sure that is all from my side. Thank you very much and wish you all the best.
- Moderator:** Thank you so much. We take the next question from the line of Shyam Sundar Sriram from Sundaram Mutual Fund. Please go ahead.



*Tube Investments
May 13, 2022*

Shyam Sundar Sriram: Good morning. Thanks for the opportunity. Sir my question is just is if we look back around three and a half years you had laid out a set of seven performance steps areas of improvement per se so seeing scrap realization being one key item there if we leave aside the revenue enhancement target EBITDA because the auto industry is now in a slightly more gradual recovery phase so on the sourcing scrap realization front from that perspective if we look at their RM cost as a percentage sales from FY2022 the Q4 the RM cost the percentage sales has increased by around the 800 bps mark per say? Now how are those initiatives kicking in and how do we think about the margin improvements from here and just added to that how to think about the PBT margins as be it two years out per se? We have ended the year at around 10% PBT margins can we expect the earlier lean productivity initiatives to continue and yields anywhere between 12% to 14% PBT margins per se?

Vellayan Subbiah: The short answer is yes. Obviously kind of where we fall in that range will depend on where raw material prices go because that affects the denominator of airbase and I think Shyam like you correctly said lean and productivity will give us more and sourcing will yield less now because those efforts kind of at least are not going to be the larger drivers at the current point in time.

Shyam Sundar Sriram: Understood Sir.

Vellayan Subbiah: There could be some good opportunities till now. The Lean initiative, I would say, we are a different kind and we are not even quarter of the way there.

Shyam Sundar Sriram: Which business segments will we see Lean initiatives yielding more results Sir?

Vellayan Subbiah: Shyam, Lean initiative we have started doing across TII and a Japanese consultant is helping us in this direction so all the business is going to go through this.

Shyam Sundar Sriram: I was just trying to understand how amenable each segment which of those are more amenable to those in initiatives? We have seen some improvement on the sourcing scrap side for sure, which you had also talked about in few quarters back so are there further low hanging fruits from these initiatives that can pan out in the next two years that is what I was trying to get at?

Vellayan Subbiah: Shyam like well and said that. We are just a quarter into the journey, for a full journey in productivity improvement it is a work in progress. Surely there is a good amount of scope to increase the productivity across the company.

Shyam Sundar Sriram: Understood. Got it Sir and the other point on the capital allocation and the inorganic opportunities per se how do we incrementally think about it going forward Sir? It is just from a thought process per se how do we think on that front per se?



Tube Investments
May 13, 2022

- Vellayan Subbiah:** Shyam we have mainly built some cash, we said the maximum negative cash on the balance sheet that will end up with negative so we have to borrow. The maximum we would borrow is up to two years of free cash flow. Obviously we are not close to that yet but we have also said in terms of inorganic growth we would be very opportunistic so right now we are kind of the market where prices are for assets we do not see as much opportunities or we will continue to track a whole lot of companies. So, it is basically it is purely going to be when we feel we are getting a pricing that is not basically kind of that is attractive for us to get into these opportunities and in the meanwhile we will continue on some of the TI II activity.
- Shyam Sundar Sriram:** Understood Sir that is helpful. One last question if I may? The cycle of the segment we saw very good pick up just post COVID per se? Now it has started coming off per se so on a two year basis should we expect this segment to continue to be declining for the industry as a whole? I am trying to understand the dynamics there and so therefore only our lean initiatives can then improve profitability that is how to think about the segment therein?
- Vellayan Subbiah:** So I will say broadly we do not expect any significant market pickup. The two things we will focus on. One is lean and the second is how we improve market share.
- Shyam Sundar Sriram:** Understood Sir. Thank you very much. I will fall back in the queue.
- Moderator:** Thank you so much. We take the next question is from the line of Niket Shah from Motilal Oswal Mutual fund. Please go ahead.
- Niket Shah:** Thanks for the opportunity. I had a few questions so first if you can just give us some quantitative comments on how are you seeing demand on the order side because we saw substantial slowdown with two wheelers in the last quarter but whatever checks we do, we do see some pickup on the rural side again so if you can just give us some sense because auto is the largest part of your business, some sense on the demand side would be very helpful to start with?
- Vellayan Subbiah:** To be very frank any prediction from the auto demand will be anybody's guess so what we are doing is, we are focusing on what is in our hand internally like Lean initiative, can we do the focus on the product portfolio and exports category. This is a workflow but as on now it looks like that commercial vehicle will be looking little strong and two wheeler there is a slow down and CV looks to be strong and the EV portfolio also is picking up with how the broad phenomenon we have it but as I said earlier let us focus internally better rather than forecasting.
- Niket Shah:** That is helpful. The second question was on the lens business when do we see capacity coming up now for the plants as you had earlier highlighted so should we assume that in a couple of quarters we should see actually coming on stream?



Tube Investments
May 13, 2022

- KR Srinivasan:** On the lens business like we were saying earlier there is a bit of a pause mode now because of the international travel restrictions that still continues but we hope that will get resolved in this quarter because the things are opening up so Q2 and Q3 we will see some good plans being made for the expansion in this segment.
- Niket Shah:** So if I understood it correctly it is likely to come sometime at the end of the Q3 should that?
- Vellayan Subbiah:** That is right.
- Niket Shah:** Got it and any comments again qualitative comments on the railway side of the business? Have we started seeing some pickup on that side as well?
- Vellayan Subbiah:** Yes railway side we are seeing good pickup like I was explaining about Vande Bharat Project. There are a lot of plans from railways on this project so we see some good demand in the Q2 and Q3 onwards because the plans are being made now. Tenders will be open very soon and action will start from the end of Q2 and Q3.
- Niket Shah:** Got it and final question is the raw material costs has been going up over the last couple of years so obviously distorts and we made denominator and hence the percentage margin but would it be possible for you to give us some qualitative comments on the EBITDA per tonne? Has it improved in FY2022 over FY2021 because that actually might be the right way to look at it?
- Vellayan Subbiah:** Sir you are talking about EBITDA per tonne?
- Niket Shah:** Because if the realization goes up by 100% then the percentage margin comes down but may be the EBITDA per tonne would have moved up as well so just trying to understand how should come?
- Vellayan Subbiah:** So you are talking about EBITDA per ton.
- Niket Shah:** Yes because if the realization goes up by 100% then the percentage margins come down but may be the EBITDA per ton would have moved up as well so just trying to understand how one should dissect that sector.
- Vellayan Subbiah:** Yes basically we do not mention the EBITDA per ton in our industry, we go by the PBT percentage and as you know the operating leverage kicks in once the volume ramp up that is only to show improvement going forward.
- Mahendra Kumar:** As far as the OE customers are concerned we are selling our auto OEs whereas on the raw materials are concerned, we are totally protected. In some of the railway tenders the price variation clauses are



Tube Investments
May 13, 2022

protected to a great extent. Wherever we are also having active market also we do price so if you talk about EBITDA per ton there would be some challenges in terms of maintaining the percentage because of the denominator effect but other than that in absolute terms they are okay in terms of recovery of the raw material cost increase.

Niket Shah: Got it perfect Sir. I will join back in the queue. Thank you and best of luck.

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

Abhishek Ghosh: Yes Sir just couple of things in terms of overall utilization and if I just broadly talk about the engineering segment and the railway part of it because auto has not done well and railways has also not picked up so what will be the broad utilization in terms of the key factories that are kind of catering to these segments where you will be there at the operating utilization levels.

Mukesh Ahuja: We just do the capacity, calculation, exercise almost one or two years advanced but generally we do not share the capacity utilization but I can tell you next two years we are covered in both the division railways, as well as engineering to take care of any market growth which is going to come.

Abhishek Ghosh: Here my question was that there is a significant amount of operating leverage which will always play if there was a physical recovery in auto and railway demand was to come back is that something also we should keep in mind. Okay thanks and Sir also in terms of the export part of it you spoke about the new countries also kind of giving approvals so how should we look at the export journey for Tube is it a function of more of more geographies getting approved and you scaling up or it will be a function of more products getting approved in many more geographies if you can just broadly just talk about it. Maybe you have catered to 60% of the geography but maybe in terms of product it is only 20% because of the China plus one factor how should one look at it, just some broad comments that will be helpful.

Mukesh Ahuja: So like we shared in the past we say it's a function of both geography and product. Our penetration is easily increasing in terms of geography as well as the product. We have identified close to 11 to 12 product category where we are going geography by geography and increasing our contribution and our focus remains more on the OEM side of the business where the continuity of business is assured for at least 5 to 7 years time.

Abhishek Ghosh: Okay and today it will be fair to assume that out 10 to 11 products 2 or 3 key products will be prominent part of that export business today.

Mukesh Ahuja: Yes 2 or 3 products we can say that. Even at international way we are getting in two way good share of business but other 8, 9 product category we are at very early stage so lot of work has to be done in



Tube Investments
May 13, 2022

terms of geography penetration as well as the customer approval. As you are aware any OEM approval takes about 2 to 3 years time so some has already given a result in the last financial year and the same work continues going forward also.

Abhishek Ghosh: And in terms of geography also is it largely US or couple of more countries giving us this entire revenue I am just trying to understand from that perspective.

Mukesh Ahuja: Yes it is US, Europe and we started participating in China. Last year even the China so we have done good exports and we are looking for new geographies like South Africa, Brazil, and we are penetrating those countries where our penetration levels has now reached us.

Abhishek Ghosh: So X China the incremental OEMs for giving you business. Is it like earlier they were procuring from China and now they are looking to diversify that is the reason they are opening up or is i.e., like you are now up the scale and you are able to better provide them at a better cost how should one look at it.

Vellayan Subbiah: It is like that we do this work by studying even what is the import happening to that particular geography and we found that even China there are certain products which were getting imported and even started participating those import substitution program and that has helped them last year.

Abhishek Ghosh: Sir just one last thing in terms of the engineering part of the business since you have a very high market share in two wheeler products have you started supplying to some of the two wheeler to EV manufacturers or EV OEMs or does your product get somewhere consumed in the overall EV vehicle is that my question is because the penetration in two wheeler has been fairly high.

Mukesh Ahuja: Yes that opportunity available for us and we are participating. We do not know which will be the winner and which will be the losers but as of now we have taken a strategy, we are participating everywhere so let us see how the development in the EV vehicles takes place and we are participating all segment in EV also.

Abhishek Ghosh: So your product is getting approved by the new market share. There are new players coming into the EV segment in two wheelers.

Mukesh Ahuja: It is a safety critical and quality requirements are there we are running that race very, very cautiously.

Abhishek Ghosh: Okay and Sir just one last thing in terms of the overall cash flow part of it and I think the earlier individual also kind of spoke it so broadly if you look at this year working capital was little stretched you had some amount of working capital cash out flow and you also had investments in two CG power and other things going but X of that if you look at it you can broadly generate 600 to 700 Crores of pre capex cash flow every year at this current capacity can obviously improve but that is the



Tube Investments
May 13, 2022

broad number at this point in time assuming working capital is stable so how should one look at it in terms of how much of that will go into new EV initiatives is there a number there or will it come as opportunities come by with the tractor and EV investment. Is it largely done? How should one look at it.

Vellayan Subbiah:

I think like we said, first half we are constrained at one end because we would not take more debt in two years of pre cash, second is it will depend on how quickly this EV then picks up but broadly we will look at overall capital allocation across new businesses to manage against that constraints right which is not kind of going more than two years so I really think that at this stage it is bit indeterminate because we do not know how quickly some of the segments are going to pick up. Like we have taken a kind of very, the total burn to get this three wheeler product in the market. Each of these segments right we do not have more than total burn of 200 Crores to get the product in the market. Now the question is once the product is in market we need to see what way the product does picking up and that is what is bit indeterminate at this stage and that is we kind of get back once we have better time to do.

Mahendra Kumar:

Also let me clarify that there was no working capital challenge or anything last year. Actually, we started last year with a negative working capital because in 2021 because of COVID the business started ramping up only towards the end of the year and we had extended credit period and all which gave us that benefit which got normalized in 2022.

Abhishek Ghosh:

No absolutely Sir. My only limited point is from here on you will generate that 600 to 700 Crores of free cash every year pre capex so that should get normalized. I do take your point that FY2021 was one point you also had a thought that you also want to diversify away from auto right. Your dependence on auto you do not want it to be very heavy because of the EV adoption curve is there a change there or one should largely stick to that process.

Vellayan Subbiah:

I think our articulation has always been this right. If you remember from the first conversation what we had actually said that our concern was that as an auto supplier right we were in a tough spot and if you remain even kind of earlier conversations in 2018-2019 our articulation has always been kind of the challenges being an auto supplier we are caught with kind of big guys at either end of us which is basically we are selling to auto OEMs who are like 10 times our size and we are buying steel from again steel manufacturers who are 10 times our size so in this preposition while there was a very bad position to be at right. Now we look at auto OEM is slightly different right because then we are actually kind of more to B2C business right and I think that is a better position to be in. The second is the discontinuity offer by electric is a large opportunity right which is basically in our mind at least going to create a new set of OEMs that have much cloud as the existing OEMs have today. Fair enough that answers your question.



*Tube Investments
May 13, 2022*

- Abhishek Ghosh:** No I get that so basically you want to have some amount of pricing power you did not have it earlier maybe because of the large scale of supplier and customer you are dealing with.
- Vellayan Subbiah:** It is basically a conversion result right.
- Abhishek Ghosh:** Whether it be in auto or non auto it does not matter but you at least want to have some pricing power. And Sir just one last thing so you are trying to do to many things in terms of trying to grow this company at a very fast rate what is one or two broader things that kind of worry you today if you were to just look back?
- Vellayan Subbiah:** Basically these issues are this right which is the biggest thing we are doing again is just not for me but everybody is just worried about this raw material prices and basically inflation and the prices of everything and what that is going to do overall demand and otherwise I would say fairly after coming out of COVID we were very well poised for lot of growth but these two I would say are the biggest concern at this stage.
- Abhishek Ghosh:** Okay Sir. Thank you so much and wish you all the best. Thank you so much.
- Moderator:** Thank you. We take the next question from the line of Aman Rakesh Shah from Jeetay Investments. Please go ahead.
- Aman Rakesh Shah:** Thank you for the opportunity. Sir my question is on Shanti Gears. I joined the call late so it is repetitive I just read the transcript. Some of the questions that I saw was on Shanti Gears over last three four quarters consistently and last quarter we saw a very strong order inflow so were there any loss in this order of last quarter and how are the order pipeline looking for the outlook for FY2023?
- Vellayan Subbiah:** The order pipeline is looking okay but generally we prefer to restrict this call only to TII related question.
- Aman Rakesh Shah:** The only thing was can we have on Shanti Gears maybe request if you can have a con-call or some analyst say half yearly?
- Vellayan Subbiah:** Okay we will consider that and I think you can also write to our investor relations there and they will be happy to answer the questions for you.
- Moderator:** We take the next question from the line of Jinesh Gandhi Motilal Oswal Financial Services Ltd. Please go ahead.



Tube Investments
May 13, 2022

- Jinesh Gandhi:** My question pertains to first clarification on the lens business so are we indicating that capacities will come by 3Q FY2023 or our plans to pick up the capacity will be finalized basically in FY2023.
- Vellayan Subbiah:** We will start selling existing capacity by then. We have not expanded the business. We will only do once we feel comfortable with the preexisting business.
- Jinesh Gandhi:** So the current capacity which is there close to 5 to 6 million will get fulfilled by 3Q. Second question pertains to the Vande Bharat so can you indicate what would be our share of tie of that opportunity of 50,000 Crores, I mean what could be our content for coach how should we go about that?
- K. R. Srinivasan:** From TI we are participating in the fabrication portion of the Vande Bharat project. We fabricate side wall, end wall and all that. Separate designs are being made by railways and we have already developed the prototypes. We have already got the proto order and we started supplying to them so we will continually participate in the ensuing tenders for these parts.
- Jinesh Gandhi:** Okay so any sense on what would be our content for coach there. What kind of revenue per coach can we expect there? So per coach what would be our revenue?
- K. R. Srinivasan:** Normally we do not share those details We actually participate in the fabrication portion of the coaches.
- Jinesh Gandhi:** Got it. Okay cool. Thank you.
- Moderator:** Thank you. We take the next question from the line of Nishit Jalan from Axis Capital. Please go ahead.
- Nishit Jalan:** Yes Sir I had just two more questions. Firstly on the export side just wanted to understand on the engineering side are we catering to two wheeler OEMs in ASEAN region as well. Where I am coming from is on the metal form business your exports are very low and in metal form business we cater to two wheeler the chain business in a major way so just wanted to understand whether there could be an opportunity if you have already existing relationship with two wheeler OEM globally are to push more automotive claimed products on the export side as well so that is the first question and second question is basically what Mr. Vellayan mentioned that you want more pricing in the businesses, so obviously a B2C business are something which we give you a more pricing power so just wanted to understand what would be our share of overall revenues from the B2C businesses currently and how should we look at going ahead from the current TI1 core business not about the new businesses?
- Vellayan Subbiah:** Coming to your first question regarding engineering business for pipe fitting two wheeler segment yes we are participating in particularly ASIA, South East Asia country whatever we do supply to Indian



Tube Investments
May 13, 2022

OEM that also we take care of the Asian countries and coming to how to bid this synergy between this two your point is good, but as of now we give the service to tier 1 supplier where the synergy is less but we take your point how we can explore it going forward that is about first question. Regarding this question of what is share in consumer driven basis. As of now it is cycle basically where we have power for pricing but all other businesses are B2B. Going forward we are getting into EV a big space and which will increase our percentage of share business for the consumer directly going forward and when we reach respective levels we will start sharing those numbers.

Nishit Jalan: Sir I would assume that in metal form business after market would be a good chunk of the overall revenues which is again B2C am I wrong in that?

Vellayan Subbiah: Yes you are right. Spare part business is also B2C.

Nishit Jalan: Sir can you share just a rough number not an exact number, what percentage of the segment revenue would be after market.

Nishit Jalan: We do not monitor as of now internally as well as do not share also those numbers.

Nishit Jalan: Sir one last question from my side. Sir in the current TII's core business that we have anymore product efficiencies that you see where you can penetrate or where you can launch more products. What I am trying to gather is obviously your business will recover with recovery in auto industry and exports is something where you will do well. I am just trying to understand in the domestic market how can you grow at a faster pace compared to the auto industry so in that perspective any scope you see of launching more adjacent products or any place you see where your content per vehicle can go up, any colour on that would be useful.

Vellayan Subbiah: We are doing that work because in the opening statement we said that industry is not growing but our ambitions to grow in the business are higher so we are exploring those opportunity. Once we firm up we will definitely share with you, what are the new businesses we can enter which will be adjacencies to the current business.

Nishit Jalan: Thank you so much.

Moderator: Thank you. We take the next question from the line of Kashyap from Broadview Research. Please go ahead.

Kashyap: Sorry I kind of dropped in between due to your bad connection. I missed your answer on working capital at the standalone level so I mean just broad question was that you have an EBITDA growth of close to 40% year on year but if you look at operating cash flow that has gone down from 600 plus



Tube Investments
May 13, 2022

Crores last year, more than 100% conversion to 325 thereabouts which is close to 40% to 45% so just wanted to understand in your assessment of the business where do you see normalized cash flow from operations is this one off. Do you think that this will get resolved over the coming year?

Mahendra Kumar: Yes that is right. What I was explaining was see there was no working capital constraint or challenge last year. In 2021-2022 we started the year with negative working capital and that was because in 2021 because of COVID disruption the operation did not happen for few months and most of the ramp up started again happening towards the end of the year, so again we built inventory and then we had good credit period from the creditor so that resulted in a favorable working capital at the end of 2021 because of that at company level we had a negative working capital which is not realistic one or sustainable one for a large company like us. This is one time correction which we had to see in 2021-2022. Going forward we think the working capital will be more or less in the current range.

Kashyap: Fair enough that is helpful. Second is just a broad question on the pricing negotiations because we do have reasonable amount of OEM business at a standalone level so just wanted to understand given the kind of mayhem we have seen in RM prices, supply chain etc how simple or tough is it to kind of go out and raise pricing. I mean what are your broad thoughts that would be very really helpful. If you can just kind of explain us. How are negotiations or discussion with customers in this subject?

Vellayan Subbiah: We have a fair amount of transparency in the agreement with all the OEMs what you said it is challenging time because raw material prices have almost gone by 100% but as of now our cycle code, is we are able to recover it fully but however it is a big challenging job which our teams are going through and we will continue to do that.

Kashyap: Sure okay any progress on the Celestial acquisition I mean what is the timeline. I mean any progress on introducing e tractors where are we on that roadmap?

Vellayan Subbiah: Yes I think this part we have wrapped a bit earlier also, so the tractors we are estimating that in the end of July timeframe we would submit the homologation. Homologation like you know the process is not fully in our control so it is going to depend on how long the process takes and then once kind of that is done we will be able to talk about when we will go to market that is the best determination we can give at this stage.

Kashyap: Sure fair enough that is enough. Mr. Vellayan a bit long term question. I mean we had this conversation in the past as well but how should one think about the business over a three to five year horizon I remember earlier you kind of used to say that the traditional business will be like 5% to 7% growth and non linearity will come from TI2, TI3 and that is how the double digit growth on topline will shape up so just wanted to kind of take a recap how you think of business from where we are right now over a 3 to 5 year horizon.



Tube Investments
May 13, 2022

- Vellayan Subbiah:** Our group continues to be the same right which is basically that we are going to invest and grow new businesses which is why like somebody asked earlier Mukesh is going to take more responsibility on the existing business. I am going to take more responsibility for the new. The rate at which this new businesses grow Kashyap I would say because they are newer and therefore kind of bit less defined I think it is more difficult for us to determine especially today but we continue to feel confident that we will kind of grow this and that we have to basically kind of be in new sectors because that is where kind of lot of growth is going to come in the future.
- Kashyap:** Okay thank you so much and wish you guys all the best.
- Moderator:** Thank you. We take the next question from the line of Prateek Poddar from Nippon India Mutual Fund. Please go ahead.
- Prateek Poddar:** Sir just one small question what would be your go to market strategy for e-three-wheeler?
- K.K. Paul:** I think little while earlier I think Mr. Vellayan addressed that question. I think booking for the launch of the first variant of the E3 wheeler sometime during the period.
- Prateek Poddar:** I heard that during September. My question was how you would want to distribute these products will it be the traditional route and what would be your focus markets like when you launch. Is it a pan India launch I was just trying to get some information over that?
- K.K. Paul:** We have made out plan in phases. We will be first looking at how to launch that product and get everything right in southern part of India and then we will look at other parts in quick succession that is other thing. The distribution model how we will do that pretty much tied up. The distribution is also tied up. The after sales service is tied up how we offer the after sales service what we do with the experience, how do we determine the data those are new opportunities which we learn in terms of this and how do we give the consumer a better experience and also determine from all the information that it is coming to us because in this form you will get a lot more input which is used for your product development, improvement and also improvement from your go to market strategies in terms of looking at that so currently we employed the sales guy, the after sales service team and many of that has been done, the production line is getting ready as Mr. Vellayan said and so we are quite up beat that we will have a good product on which we can actually make some impact in the market place and based on that then we will be launching the other variants that we have in plan sequentially across the later part of the year.
- Prateek Poddar:** When you talk about tie ups right that is what I said was trying to look who are these distributors are they existing auto guys and also on the after sales service part you said we have tied up. When you think you can explain this tied up part that will be helpful Sir.



Tube Investments
May 13, 2022

- K.K. Paul:** I think the after sales service means we are looking at everything within 24 hours number one, number two service on wheels so there is a tie up that is required there. We finished the tie up so that we can provide so the down time on productivity vehicle remains the least so his learning is not affected. Those kinds of minor details actually we work to great length in terms of seeing that we are able to get that done and so the customer feels very confidence for the adoption. There is a lot of work that is going on currently to see who the potential setup customers are. There is a big data base and how do we establish contact with them now which we are doing to increase the launch and then how do we influence on the ground to see that the vehicle is experienced in terms of this and thereafter the adoption starts happening.
- Prateek Poddar:** To begin with the last question how many distributors have we tied up. What is the distribution strength like?
- K.K. Paul:** See today I think we have tied up with about 40 dealers actually basically on the southern part of India to answer your question.
- Prateek Poddar:** Okay Sir. Thank you so much.
- Moderator:** The last question is from the line of Anupam Gupta from IIFL Securities. Please go ahead.
- Anupam Gupta:** Thanks. So just one clarification Sir 500 Crores enabling resolution which you have done for borrowing is that just a enabling resolution or is there a plan because you said that your cash flows are string and you do not have right now any inorganic opportunities visible.
- Vellayan Subbiah:** Yes it is enabling resolution.
- Anupam Gupta:** That is all from my side Sir. Mr. Vellayan, if you have any closing comments and then we can close the call?
- Vellayan Subbiah:** Nothing specific from my side, Anupam. Thanks a lot and we thanks for all your support and we continue to stay in touch with you.
- Anupam Gupta:** Sure. Thanks a lot everyone for tuning in and thanks for the management.
- Moderator:** Thank you so much. On behalf of IIFL Securities Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.