



“Tube Investments Q2 FY13 Earnings Conference Call”

November 07, 2012



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Moderator

Ladies and gentlemen, good day and welcome to the Tube Investments Q2 FY 13 Earnings Conference Call hosted by Axis Capital Ltd. As a reminder, for duration of this conference, all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call, please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. At this time, I would like to hand the conference to Mr. Kashyap Pujara from Axis Capital Ltd. Thank you and over to you sir.

Kashyap Pujara

Good evening, everybody. It's a pleasure to have with us the management of Tube Investments. From the management side we are represented by Mr. Ramkumar who is the Managing Director; Mr. Balasubramanian who is the CFO and Mr. Rajagopal. Without taking too much time I hand over the floor to Mr. Ramkumar, over to you sir.

L. Ramkumar

Thank you, Kashyap. Good afternoon to all of you and we thank you very much for taking time off for this conference. To take you through briefly on the results of the quarter I will start with the standalone results of Tube Investments of India Ltd. We had growth over second quarter of last financial year versus this year on the top line 9%. And the half year level we had growth of 7% in the turnover. And the profit from operations before other income and finance cost, there has been pressure on the margins as you might see that it has come down to 6.8% from 7.9%. There are a couple of reasons for this. One is in the Bicycle division; we had nearly 25% of our volume coming from the institutional orders. These are supplied to the Governments of Tamil Nadu and Karnataka where the Bicycles are the standard Bicycles which are low priced and low margin. Second is there has been a huge pressure in terms of fuel, freight and other related cost on the manufacturing cost of all the products.

As regards power there has been a little extra cost on various divisions which are operating in Tamil Nadu where we do bulk of our production. Because of the power cut situation where we had to resort to the diesel gensets, we were not able to pass on this entire increase to the customers during the quarter. And as you see finally the profit before tax level we are at 50 crores as against 60 crores same quarter last year. Net profit turned out to be 37 crores.

In terms of the consolidated numbers, we have done quite well as you might have seen. The growth over quarter 2 of the previous year has been 22% in top line. And the H1 the growth has been 21%, and as you can see there has been improvement in the net profit as



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well; we were at 62 crores last year net profit consolidated and this year we ended up at 76 crores.

Overall, if you see besides the financial services, if we were to go into division wise performance, first, we look at Cycles & Components we see that profits are better than last year in terms of the segment results. Engineering has been roughly around the same level. There has been a drop in the Metal Formed products, largely driven by the drop in railways in terms of both turnover and the percentage margins. We have had a significant growth in profitability of insurance and other financial services which is basically Chola mandalam Investment and Finance, you can see the figures, and insurance has virtually doubled at this level 7.8 crores to 16 crores, other financial services from 65 crores to 102 crores.

In terms of physical volume growth Bicycles, we grew by 10% in terms of numbers over the previous year same quarter, in case of Cold Rolled Strips there was a drop of 4% for the quarter, for the half year we are virtually at the same level as last year.

In the case of Domestic Tubes we dropped by 1% during the quarter and we grew by 2% over the first half, which means we had a growth in the first quarter.

Coming to Metal Forming business, the Door Frames we had a drop of 2% this quarter versus last quarter same year whereas for the half year we had a drop of 8% which means that it is better in this quarter than the previous quarter.

And in the case of Railway Wagons in terms of volumes we did better for the quarter, though the realizations were lower, and also past year we did 6% more wagons than the other sections of Wagons at the previous time.

Auto Chains were largely affected due to offtake by OEMs on the Spares segment and some drop in the OEM segment as well. So there has been a drop of 12% in the Auto Chains during the quarter over the previous year. And in the case of Industrial Chains also there is a drop of 20%-odd because of the slowdown in the industry.

We did well in the aftermarket where we sell directly. We grew by 30% and we did well in the Fine Blanking division which is 46% growth and export of chains were virtually flat at the same level, though we grew by 9% through the half year.



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So overall this has been the performance of the various divisions. Going forward, we see the dependence on Auto as you know is fairly high for TI in the non-bicycle business. The growth expected is not too high; it is likely to be may be around the same level as the second quarter of the year, and we are kind of raising ourselves to face the situations in terms of tightening our belts and seeing how we can reduce the cost, get prepared to manage this in the short run

And a word about Shanthi Gears, we took over the management of this company on September 3rd it's been 27 days of performance which has been reflected in this quarter and in the consolidated results. I can tell you that we have formed a new board and we have appointed a new CEO and Executive Director with a lot of experience in the industry. And we are in the process of integrating with the existing management and the people down below and also looking at growth opportunities in terms of meeting various key customers. I can only say that the takeover by the Murugappa Group has been received very well by the customers. We see the prospects are very good. All that we need to do in the next six months is to put in place a program for accelerated growth of the turnover and profits of this company. So broadly this is what I have to say, and I will be very glad to take any questions that you people may have. Thank you.

Moderator

Thank you very much sir. Ladies and gentlemen, we will now begin the question-and-answer session. Our first question is from Akhil Jain of Aditya Birla Money, please go ahead.

Akhil Jain

My first question is could you throw some light on the status on the capacity expansion in the Tube side? I believe there are two projects; one is a large diameter tube in South and one is Greenfield facility in North and the quantity of capacity to be expanded.

L. Ramkumar

As far as the large diameter tubing which is going to be established in the South, we have acquired the land and if you have seen the newspapers, the MoU we have signed with the Tamil Nadu government for the total mega project which is to be implemented by TI, this is one of the major components of that investment. With this we hope this MoU was signed a couple of days back. With this we hope the clearances will come faster. We should be in a position to start the ground breaking. We have already built the compound wall and also we have ordered most of the equipment that is required; major long lead time equipment. In fact we are hoping the equipments will not arrive prior to the construction because of the delays in these permissions and other things. The total investment expected here is around 225 crores and the capacity we are looking at is



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40,000 tons in the year three when we fully reach this ring and it will be at a higher value than our current products because...

Akhil Jain

This is at CDW level or?

L. Ramkumar

Yes, it is CDW, it is not much of ERW we are counting now, but there could be some ERW to automotive sector later.

Akhil Jain

Okay, so it is likely to be higher at ERW tube capacity?

L. Ramkumar

ERW capacity is much more than the CDW capacity, you can take it virtually double.

Akhil Jain

And the status on the Greenfield facility in the north?

L. Ramkumar

North again we are in the process of acquiring land, we have got nearly 80% of the land, we have to complete the process and then we have to go for the approvals for various things relating to the factory. We have made our layout and other things and I guess it may take another three months before we are in a position to actually go and do the ground breaking, after which we should be able to start the construction and go ahead with the...

Akhil Jain

What kind of capacity are you looking in this North plant?

L. Ramkumar

There, we are looking something like 2500 tons of CDW per month.

Akhil Jain

FY13

L. Ramkumar

Yes.

Akhil Jain

And ERW again should we assume two times the...?

L. Ramkumar

Slightly more; 4000 tons may be, because you have to make something for this and then some can be sold as CRW itself.

Akhil Jain

Also like what is the timeline that you expect for the large diameter plant, when do you expect it to get commissioned and also probably for the...?

L. Ramkumar

I hope definitely should start operating by fourth quarter of '13-14.



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Akhil Jain This is for the large diameter plant I think?

L. Ramkumar Correct.

Akhil Jain And the Greenfield plant will probably take longer?

L. Ramkumar The other one expansion, probably by a quarter or half year extra depending on the time it takes to get those formalities.

Akhil Jain Okay. Also what was the railway products revenues for this quarter?

L. Ramkumar We did 27 crores.

Akhil Jain And what was the number in the corresponding quarter last year?

L. Ramkumar 30 crores.

Akhil Jain You said the Engineering volumes have increased, the Tubes volumes have decreased by 1%, right?

L. Ramkumar Yes correct.

Akhil Jain And the revenues have grown by 7%, so there was roughly 8% price increase.

L. Ramkumar For the price increase it would be a mix also.

Akhil Jain And this is probably due to rise in raw material costs?

L. Ramkumar Correct.

Akhil Jain And sir other income is basically reflective of the dividend that comes from...

L. Ramkumar From Cholamandalam.

Akhil Jain How much was that?

L. Ramkumar 7.5 crores.



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- Moderator** Thank you very much. Our next question is from Janki Raman of Franklin Templeton, please go ahead.
- Janki Raman** I would like to get an idea about the proportion of the business that you have that is consumer facing. Now, would it be fair to assume that entire cycle segment revenue is essentially B2C kind of revenue?
- L. Ramkumar** That's correct.
- Janki Raman** And in the Engineering you did mentioned about aftermarket business. In the engineering what proportion of that will be B2C?
- L. Ramkumar** Before that just a small correction, in the last quarter alone since we supplied to the government whether you call it 'C' or I don't know 'G' because that's an institutional order. As I told you there has been a significant portion of this, two institutions around 25% of the revenue last time, something like that, that is an exception, but otherwise you can take it as B2C. In the case of Engineering business there may be virtually nothing B2C.
- Janki Raman** But you did mention about decent growth in the spares for aftermarket business...?
- L. Ramkumar** Okay, you can call that, I know I mentioned about Chains because while the OEMs are not lifting, we have not been supplying till last year due to capacity constraints. Now that we have capacity and we had a good brand we are able to supply. You can call it B2C, actually we sell to the dealers and they sell to the mechanics or I don't know wherever they do. So there is you want to know what is the proportion of that?
- Janki Raman** Just a rough proportion of that of the Engineering segment's revenue percentage?
- L. Ramkumar** Engineering means it will be part of Metal Forming. Very, very small. It will be around 5% to 6% of the Metal Forming business.
- Janki Raman** And regarding the acquisition that you made in France, now primarily I guess that was an acquisition made for both technology and market access. What has been the kind of progress that you had so far and have you been able to fully leverage upon that?
- L. Ramkumar** On the technology side they have a proprietary technology for heat treatment, by which the strength of the chain will increase and the life of the chain will increase. It is a delta



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processing technology which we have got those equipments, installed it here and we have started offering those for very special applications, number one. Number two; there have also been specific parts like bushes and assembly where they are doing it in a much more productive way. So we had got the people here in order to install those machines and all chains practices here, which has given us more productivity. Third is there are certain types of products which we do not make, which they are supplying to us and we are quoting to the local market. There are also other opportunities where we are able to make some standard products at a much lower cost than they make and they are able to put their brand name and sell it in Europe and elsewhere. We are also talking about selling American Standard chains, because ours is basically started with the American collaboration. I said it does not have American standard chain. So with their brand name, we are launching our American standard chains in US, maybe shortly, we have done the market study and market development and the product testing and all that is gone. Broadly, right now these are the areas where we are working with each other.

Janki Raman

Briefly on Shanthi, based on the last quarter or the June quarter numbers, what kind of capacity utilization they are operating at present?

L. Ramkumar

As you know it is like a shop, but I think my guess is they would be operating at 40-45% capacity.

Janki Raman

Why I ask the question was if you are indeed able to bring in more orders because of the much larger industrial marketing setup that you have, are they positioned to actually meet the needs?

L. Ramkumar

Yes definitely. We know the utilization of the equipments, easily they have capacity.

Janki Raman

On the industrial demand, clearly you had some kind of a weak demand in second quarter. After that is the trend continuing to be weak or have you seen some kind of recovery?

L. Ramkumar

Not great progress in the one month we have seen in this quarter.

Janki Raman

Still touch and go only?

L. Ramkumar

Yes.

Moderator

Our next question is from Ravi Purohit of Securities Investments, please go ahead.



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Ravi Purohit

A few of my questions have already been answered. Just one thing, can you throw some more light on this acquisition on Shanthi Gears. In the past I think you refrained from commenting very extensively on it because the process was going on in terms of management take over. Now that the process is over and company is well under our control. Can you just throw some light on what does the company achieves to do with this rather unrelated business that we have taken over? And what is the path forward for this acquisition? It's a fairly large size acquisition for our size.

L. Ramkumar

One is there is some complementarity with Shanthi Gears with our businesses. The chains, rocket, gearbox, motor, from the motor you have to drive the machines and you need something in between, gearbox is one of them. We are operating in the engineering class chains. Say industries like Cement, Steel and all that. Shanthi Gears is also present there in terms of supplying gear boxes. Now if you have to give it as system you need to acquire a little more capability to put it together. The fact that you can do it. You will have an edge over. Other people who are a pure play gearbox or a chain manufacturer. That is a longer-term vision. Going by Shanthi Gears per se, one is we believe the company itself has got more potential. Like earlier gentleman asked us about the capacity utilization. The capacity utilization is still not very high. So there is room for increasing the sales and doing it much better in terms of our offerings and all that. The company has been started by an individual and it was going on in a particular way. Of course, we from nothing we brought it up to this level. Now with our support and most of their customers are also our customers either in industrial segment or with Carborundum. So it is much easier for us to approach them at various levels. We also believe they have many products and services which have not been fully exploited in terms of offerings. And one more benefit for TI is, TI is into Steel, Metal, Heat Treatment. So this also gives us to enhance our capability in terms of fine machining, foundry, this can be complimentary in the long run, if you wanted to get into some auto components or we want to put something together along with the tube as a Fine Blank Components. As we are talking, I think right now we are focusing on, as you know, this company had a much higher turnover and then they went down because of some rationalization of people and all that. We believe the peak they achieved can be got back fairly within 12 to 18 months may be or two years. In this case I think first we would like to concentrate on realizing the potential and then looking at the synergistic benefits which I mentioned to you.

Ravi Purohit

One small thing, while studying about this takeover, we came across a couple of articles in which it was mentioned that Shanthi Gears was earlier planning to also get into Compressor. That's entirely different animal altogether. So what are your thoughts on?



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L. Ramkumar We have shelved that project for the time being. We think it is difficult for them and also we don't want to digress from the main business which itself has got good potential. So we will not be doing anything on that.

Ravi Purohit Just one last question of these related discussions. Would your focus be on domestic market or export market, because I would assume that Gears and Gear Boxes would be a fairly large market internationally and you have a very strong network outside of India also, so is that also a thing that the company is looking at?

L. Ramkumar Actually we are focusing on the domestic market, but in the last 1.5, 2 months we have been associated with the company, we have had a lot of enquires from overseas markets through known people, who knew that we have taken over, so definitely we would like to exploit them at an appropriate time. Probably the right thing to do is to look the low hanging fruits and may be offer to the export markets, whatever is the standard product which is available with us. As you know many of the export markets may require some very special and specific development. But definitely you would see that progressively we will increase our export turnover also there.

Moderator Our next question is from Avinash Srivastav of Banyan Capital, please go ahead.

Avinash Srivastav My question is related to Shanthi Gears and thanks for explaining in detail what the opportunities you see with this acquisition. The follow up question there is what do you think about the capital allocation that has happened so far in Shanthi and how you plan to monetize some of the assets, for example, somewhere they have a lot of real estates and as you said the capacity utilization is low, so if you could comment on that side of the equation, that will be helpful.

L. Ramkumar No, at the moment we are only looking at improving the sales, operations and the profitability. We have not thought of any monetization at this point of time from the land or other things. I think it will take six months for us to really assess what is the potential of Shanthi, and all the extra land, etc. will be first made available to Shanthi's expansion plans if there is anything like that in the next coming years. After we have exhausted all the possibilities, we would be in a position to think what better use we can make of it for other products and projects.

Avinash Srivastav And the second question I believe you mentioned and I wanted to just clarify that point that you have hired a new management team to go into Shanthi or are you planning to continue with the folks that were hired there in the last one or two?



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L. Ramkumar

Actually, what we have done at the moment is, completely the board has been reconstituted. Mr. Murugappan is the Chairman. And we have hired a President and Executive Director because Mr. Subramanian who was the Managing Director and Chairman, he has resigned and he is not doing anything with the company now; he was virtually running the show. So the person on the spot now in Coimbatore will be Mr. Sreeram Srinivasan who has joined us. As far as the management team is concerned, apart from Sreeram Srinivasan, the CFO of the company also left along with the earlier CMD to join him in his social service. So we have sent a CFO from our side. So at the moment we have the CEO and CFO from Murugappa Group side. As regard the other people at the moment we are working with them, we are observing, we have not made any changes.

Avinash Srivastav

And my final question just on Shanthi Gears. Is there going to be any change in the dividend policy because it seems like company is a little bit over capitalized there, so should we be expecting anymore changes on that front?

L. Ramkumar

Good question but I don't have an answer, too early for us to think about dividend. I think the ink has not dried still on the investments, so let it get completed and also let us be clear about the overall plants requirements of the company, we should be able to answer this question may be after six months.

Avinash Srivastav

But you do think the company is over capitalized?

L. Ramkumar

I don't want to say anything now. We will have to access depending on what is the requirement in future, what we want to do with the company, and then I think we should be able to come to this conclusion.

Moderator

Thank you very much. Our next question is from Samir Desai of Finco Capital Management, please go ahead.

Samir Desai

As the FDI insurance policy guidelines have come, want to just know that is Tube Investments had any plans to sell their stake to MS General Insurance? And if there is any planning what will be the pricing formula guidelines according to anything, can you give any color regarding this?

K. Balasubramanian

This is an option for us to improve our debt-equity ratio also from TI point of view. We are evaluating the options. If all the terms, agreement is there in place, definitely we will



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consider this as one of the options to infuse kind of money to the company, but it is still in the drawings stage, nothing is firmed up at this stage.

Samir Desai

For any pricing, if you can throw some light on...

K. Balasubramanian

IRDA is coming out with some kind of guidelines in terms of, earlier it was more **(Inaudible) 27:51**, being at regulated industry, there is set of guidelines we need to follow. However, the way you want to look at it and that will be followed and we can, went go back to the promoters and see how do we structure the whole thing into that.

Samir Desai

There is a planning is going on, you are reading the options that...?

K. Balasubramanian

We are evaluating the options if the whole thing comes into place; I am not sure whether the IRDA regulation will be amended so soon with all the confusion prevailing in the country.

Samir Desai

Next 1.5, 2 years it may come?

K. Balasubramanian

It may come, if it happens, yes.

Moderator

Thank you very much. Our next question is from Dishant Tandon of B&K Securities, please go ahead.

Dishant Tandon

Just wanted to know like could you please quantify the Auto and Industrial Chain revenue during the current quarter?

L. Ramkumar

Yes. He is just culling out the information. Anything else you want to have

Dishant Tandon

And how is the growth in the Industrial Chain export this time in current quarter?

L. Ramkumar

The exports have not grown; it's actually a flat on quarter-on-quarter.

Dishant Tandon

And sir you said like you are going to launch this American Standard Chain shortly. So what is the revenue potential for same? Whether it would be almost like 30-40% growth earlier when we saw, could it be like that or the pace would be slower?

L. Ramkumar

One thing we need to understand is the export orders, it takes time to execute because there is some kind product testing, and that product testing in industrial texture it takes a longer time, it could be even as high as six to eight months, because we are talking about



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four clips, if we are going to use this there is the chains which we are manufacturing, they have put it on a test trial, and test trial number of hours is to put to subset to make it happen. So it is very difficult to give a number or estimation, but we are using our channels to explore various options from the American Standard Chains to do a marketing pitch. But, it is very difficult to give a number or a growth trajectory. We are at it at this stage.

Dishant Tandon

And sir just wanted to know how did the Doorframe segment perform this quarter?

L. Ramkumar

Doorframe segment, actually we saw only a negative growth in most of the OEMs. So overall the Doorframe volumes were down by 2% over the previous quarter.

Dishant Tandon

And you said like okay with the upcoming models for i-10 replacements, it would be hitting markets from FY14 around. So what is the potential for that order? Means any guidance from OEM side?

L. Ramkumar

As of now there is no specific guidance, but it is slightly going behind schedule from our side like whatever indications we have got.

L. Ramkumar

Auto Chains is roughly around 19% of the total Metal Formed products per year. So it includes aftermarket plus COEs.

Dishant Tandon

And out of which aftermarket in this 19%, 6% is aftermarket. And Industrial Chains sir?

L. Ramkumar

Industrial Chains you are talking about, I will get back to you on this.

Moderator

Thank you very much. Our next question is from Janki Raman of Franklin Templeton, please go ahead.

Janki Raman

So you have a large investment in Cholamandalam. Sometime back TI actually streamlined the ownership where manufacturing companies are actually only holding manufacturing businesses then this crossholding came during this financial crisis and then the partner also went away, so you're now left with 75% holding in Cholamandalam. What is the three-year, five year game plan on that? Will TI continue to hold a majority stake in this financial company or does the group want financial businesses to be clubbed in a separate entity? Will we see TI remain as a combination of manufacturing as well as financial businesses in the medium-term, let's say three years?



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L. Ramkumar

That's a very interesting question. We are also dabbling with to find an answer. The issue is our current percentage is not 75%; it is 54%, because to meet the growth aspirations of Cholamandalam Finance, they have been increasing capital not from TI, from external parties, thereby resulting in a dilution of our investments from 75% to 54%. There in fact the principles what we have now decided is that we will not invest further directly from TI, so they will have to fund their own growth, which means CIFCO has to fund the growth there means of equity and debt kind of combination. In the near term we don't have to invest further in CIFCO. The larger question is whether we will continue to hold in the perspective, that's basically a more a portfolio analysis, we are looking at various options today. Again, the question is there are opportunities for TI to grow and we need to divest and then we will look at that stage. At this point of time there is no further capital increase into Cholamandalam Finance. There will be a moderate capital increase into Cholamandalam MS Insurance, because to meet the capital adequacy ratio which last year we invested around 35 crores, this year we invested 37 crores, so this year maybe by end of the financial year, that is again depending on the growth projection which they are going very strong at this point of time. We may add up in rest two years time, another 35 crores or 37 crores, that's the requirement on the financial at this quarter, barring which there is no major infusion is required.

Janki Raman

On Shanthi including the acquisition of the promoter stake as well as the follow-on offer, what will be the cumulative investment required from TI?

L. Ramkumar

464 crores.

Janki Raman

And okay would that be primarily funded by debt?

L. Ramkumar

We have done some kind of borrowings for the acquisitions temporarily and the rating agencies giving us 'AA' outlook is positive, there is no change in the ratings, which means that the cash flows are fairly strong for TI. What we are planning is currently our debt-equity ratio is slightly above 1:1. I am talking about debt-equity is the total debt-equity whereas the long-term below it is around 0.85:1. We are looking at various options to studying how do we bring down comfortable manageable level of 1:1 that's the exercise which we are on, it is too early for us to say as how we are going to bring it down, but we are at it at this process.

Janki Raman

Why I specifically asked about the CIFCO was that post-Shanthi and Sedis acquisition, you are pursuing growth through inorganic opportunities if there are reasonably valued



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opportunities available when the conditions in US and Europe there are plenty of manufacturing assets that are coming up for...

L. Ramkumar

Very true. Past as well, we are shopping the inorganic routes acquisitions around the globe. But what we are seeing is if there is a good potential, as rightly pointed by you, then this should not be constrained by our financial structure. So we are open for that kind of dilution if necessary, if warrant.

Moderator

Our next question is from Vishal Saraf of SBI Mutual fund, please go ahead.

Vishal Saraf

We are hearing of some strike at Hyundai's plant. So wanted to understand if our workers are kind of supporting Hyundai workers and is there any impact on us in terms of sales to them?

L. Ramkumar

No, our location is not very close to Hyundai, we are almost 14 kms away. Our shipments will get delayed because of the just-in-time concept of material being brought into that factory there are some schedule changes that are happening and that is the only thing that we are seeing at this stage. I am only hoping based on the internal information that this strike may not be there for long.

Vishal Saraf

But how is the impact overall you see of this strike or may be on Hyundai or overall you...?

K. Balasubramanian

In terms of strike or a slow down the economy itself, so, obviously we are seeing anyway the slow down, because quarter-on-quarter the volumes are coming down for Hyundai as well. So we are not sure whether it is because of the slow down attitude of the workman or the industry itself because we see the quarter-on-quarter almost 10% volume drop in Doorframe itself for Hyundai.

Vishal Saraf

So do you see Doorframe volumes continue to be impacted say in third quarter or second half as well?

K. Balasubramanian

We do, because unless we have to wait and watch because of the festive season which will mean car would have been manufactured already, we have to wait and watch, looks like it is not going to be very impressive growth going to happen for these sectors for at least for next quarter, this quarter also.



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- Vishal Saraf** So on a sequential basis; you are likely to see more volume decline given that most of factory dispatches would have happened in last quarter itself?
- L. Ramkumar** Hyundai is hoping on export strategy, not only on domestic side, thereby the volumes may not decline as badly as what has been projected, we hope that the exports pick ups for Hyundai and we are able to maintain the same kind of volume of last quarter it will be fine for us.
- Moderator** Thank you very much. We have a question from the line of Mr. Kashyap Pujara of Axis Capital, you may go ahead sir.
- Kashyap Pujara** Can you just give me the, basically the volume breakup, like say, Cycles what is the volume that we did in this quarter? Metal Tubes, what is the total tonnage that we did in the Engineering segment? These two things.
- K. Balasubramanian** Cycles, we did around 12 lakh cycles for the quarter and institution is around 3 lakh cycles and we did total tube tonnage is around 33,900 tons.
- Kashyap Pujara** And in the last segment which is Metal Formed, I mean you did mention the railway wagons which was 27 crores, can you give the balance breakup of what was Doorframes and what was Chains?
- K. Balasubramanian** Chains was around 128 crores.
- L. Ramkumar** And Doorframes was 51 crores.
- Kashyap Pujara** Broadly, wanted to ask you about the overall Cycle business, I mean are we seeing the competitive intensity reducing wherein there can be potential to pass on increasing prices, is there a possibility, because earlier on we did hear that despite being oligopoly, Hero Cycles was playing a spoil sport earlier. Has that situation gone down a bit?
- K. Balasubramanian** Earlier also we have explained the way we approach the Cycles businesses, we go by the cycling route rather than going on head on with one competition or the other despite Hero being the leader in the industry. If you look at our activities during the quarter, one is we have first as a strategy continue to pursue this route in terms of below-the-line activities one. Second is as you also see that focus on the retail outlet and retail channel, these two strategies are still pursued by us for the Cycle segment. These are the two things. Coming back to the main question on the competitive scenario, the competitive scenario is still



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very high only, we are seeing because Hero being a major player. So we are trying to do internally that is third part of our strategy is, we are trying to see oneness on the cost focus wherever we can reduce and we also talked about the impact we had on account of some of the import contents we had which had affected us. So we are working on indigation program and we have made some progress on that. So we are countering the competitive pressure through these strategies rather than one-to-one product strategy.

Kashyap Pujara

And on the CAPEX front if you could just share the number what could be the CAPEX I mean that we are looking at over this year and next?

K. Balasubramanian

During the quarter we spent around 65 crores of CAPEX and up to H1 it is around 126 crores. This mainly went towards the tubes expansion of the large dia tubes and for the land in Punjab. Apart from that like your North and this thing for that tubes expansion. The balance we are expecting around 300 to 350 crores in the range for this fiscal year.

L. Rajkumar

Next year also it should be around that 350 to 400 crores.

Kashyap Pujara

So organically we are basically having 600-700 crores kind of a CAPEX and inorganic we did Shanthi Gears. So virtually our gross block investments are doubling in that sense, the total investment in the core business?

L. Ramkumar

Yes.

Kashyap Pujara

And can you give me the exact the debt levels? I mean if you can give that information. What is the current debt not as on September, but as on now?

L. Ramkumar

As I was telling the other day the total debt-equity ratio we are targeting to be 1:1. Today, at this point of time we are slightly above, the total debt-equity is 1.16 and because there are some working capital cycle also is because of the outstanding from the governments which we have sold some 3 lakhs as was told earlier. The money is going to come collected almost 90, 95 crores, the money is going to come in the next couple of months. So thereby we will still be slightly higher than debt-equity ratio from the current level, but we are looking at various options to bring it down to a manageable level of 1:1 or the effort to be taken during the current year or the beginning of next quarter, so that the comfortable level of 1:1 is what we are targeting.

Kashyap Pujara

Sure. And on the insurance front, what is the kind of write-offs which are yet pending now?



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- L. Ramkumar** I think it is around 65 crores over a two years time.
- Kashyap Pujara** Okay, so we are comfortable there now?
- L. Ramkumar** Yes.
- Kashyap Pujara** And I just heard you say that Shanthi Gears top line, what the peak can come back in the next 12 to 18 months. Now if you look at the operating history of Shanthi over last ten years the margins have averaged around 35%. So am I correct to assume that we will maintain profitability or improve on this?
- L. Ramkumar** That's our intent.
- Kashyap Pujara** Operator, can you just take the next question please?
- Moderator** Sure sir, thank you very much. Our next question is from Akhil Jain of Aditya Birla Money, please go ahead.
- Akhil Jain** In the Tube segment and the Auto Chain segment we have seen a sharp de-growth in volumes. So what are your expectations for the volume growth in the second half of this fiscal and in FY14?
- L. Ramkumar** That's the industry, actually it is very difficult to say a number, you know that we are dependent on the autos quite high, close to 80%. Again within that these segments various two wheelers growing fairly comparatively is better than the four wheelers, very difficult to put a number. I think if all is well then 6 to 7% growth happens means that I would say it is a reasonable assumption there. It is again depending on so many factors outside our domain.
- Akhil Jain** And in this quarter the capital employed in the Cycle segment has increased by 60 crores?
- L. Ramkumar** That is basically because of the money which is due from the government because over 3 lakh cycles have been sold.
- Akhil Jain** Working capital basically?
- L. Ramkumar** Yes correct.



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- Akhil Jain** On the equity-debt financing part, you said that it's slightly above our comfort levels. So which mode of equity financing would you prefer, is it like a **stick fill** (Inaudible) 46:52 in Cholamandalam or **stick fill** in Tube Investments?
- K. Balasubramanian** There are various options which is being evaluated. I don't think I can share this information at this stage, may be another six months time you will see some kind of sense there.
- Akhil Jain** Is there a policy that you want to keep your economic interest in Cholamandalam above 50%?
- K. Balasubramanian** Beyond a point it is going to be very difficult because their growth is going to be very high and that require some kind of debt and equity infusion to them. To the extent possible our intent is to keep it as a subsidiary which means 50% plus, but if it is going to be affecting the financial structure of TI we may let go. I mean this is basically more in terms of intent or philosophy, I would say.
- Moderator** Our next question is from Kamlesh Kotak of Asian Markets Securities, please go ahead.
- Kamlesh Kotak** I joined late, I don't know whether you have covered this or not, but regarding specific to Shanthi Gears, as you said that you will be getting back to the older levels of the revenue. Will it be only form the existing product portfolio or it will be anything else that we are adding, what is the kind of a business strategy as regards that?
- L. Ramkumar** We are evaluating all options, it is not just one sector because this Shanthi Gears per se they are into various segments, and so their product portfolio. We are in fact now talking to the customers of Shanthi Gears and they have been welcoming us, Murugappa Group taking the charge of the management. It is too early to say but the approach is whichever way you go through the existing product portfolio or new product portfolio the target is to use the assets which is more productive than what currently used which is close to 30% to 40% at this point of time which means the potential is quite large, so we are now trying to tap the market there, wherever the low hanging fruits are there at this point.
- Kamlesh Kotak** So any sense in terms of what kind of business verticals we are looking? Is it more to do with auto ancillary side or engineering or...?
- L. Ramkumar** Shanthi Gears is into non auto, because the owner is....



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- Kamlesh Kotak** Yes, they are mainly in to Gears, but as regards our utilization of infrastructure, so are we moving to some sort of auto side or infrastructure engineering capital goods?
- L. Ramkumar** You are talking about the Shanthi Gears will be getting into auto, what...?
- Kamlesh Kotak** What are the incremental infrastructure that we will be putting to use.
- L. Ramkumar** The question is even the infrastructure market share of within the segments is quite low. It means we have lost customers over a period of time. The question is within the verticals which we have already been playing there is a huge opportunity. Without getting into a new vertical auto, new vertical is there, development products, first of all we need to understand their engineering skills beyond a particular point, which will take time, but today we are focusing on the existing vertical list.
- Moderator** Thank you very much. Our next question is a follow-up question from Dishant Tandon of B&K Securities, please go ahead.
- Dishant Tandon** Just wanted to know performance of the Strips segment sir? Actually I joined late so I could not get the performance of the Strips segment sir.
- L. Ramkumar** You are talking about CR cold rolled steel strips segment?
- Dishant Tandon** Yes.
- L. Ramkumar** There was a drop in the last quarter volumes by around 4%.
- Dishant Tandon** And whether there was any realization gain or not sir?
- L. Ramkumar** Not really because most of it will be a marginal recovery of the increase in cost. There is no actual gain on realization period.
- Dishant Tandon** And the way you said like there was 10% volume drop by Hyundai in this quarter sequentially, so whether we see any improvement going ahead and who are like now our customers like growth has been offset just 2% volume drop year-on-year, could you give us sequential drop, how much it was dropped on sequential basis in Doorframe?
- L. Ramkumar** Basically, Doorframe, as you know, it's all ready to cars, it means it is across the segment, we supply for Hyundai, Maruti, General Motors, Tata, Mahindra, it is across.



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Except for Mahindra I think there is some growth has happened, barring which it is across the segments, across the customers base.

Moderator

Thank you very much. Our next question is from Akhil Jain of Aditya Birla Money, please go ahead.

Akhil Jain

In September. Maruti had a sharp wage hike of around 50%. I mean what kind of impact do you think it will have on the wage cost for Tubes Investments for the Engineering and Metal Formed products division?

L. Ramkumar

I don't think it will have a direct impact.

Akhil Jain

I mean the salary expectations going to increase?

L. Ramkumar

No, we are not a car maker, we are in the component or intermediate stage, most of our places we have a wage settlement. We will be coming up on the next two years. So the comparison is more with the people in the similar location, same area, I don't think immediately we...

Akhil Jain

But doesn't it set the bar at a higher level for engineers at the factory level, workers at the factory level?

L. Ramkumar

Engineers is one thing and workers is another thing.

Akhil Jain

Workers, say for example I mean sets the bar higher for the workers at the factory.

L. Ramkumar

Yes, people are always wanting more, but I don't think people are going to ask for 60% increase immediately. I hope it has not happened nor have we seen any hint of that nature so far.

Akhil Jain

So when is the wage settlement due for our...?

L. Ramkumar

Most of the places it will happen in two years time from now; 2014 or something like that.

Moderator

Thank you very much. Ladies and gentlemen that was our last question. I would now like to hand the floor back to Mr. Kashyap Pujara for closing comments.



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Kashyap Pujara

Thank you everybody for attending the call and thank you to the management of Tube Investments for being gracious enough to for coming over.

L. Ramkumar

Thank you.

Moderator

Thank you very much. Ladies and gentlemen on behalf of Axis Capital Ltd. that concludes this conference call. Thank you for joining us and you may now disconnect your lines.