



“Tube Investments of India Limited Conference Call”

November 6, 2013



ANALYST: MR. KASHYAP PUJARA

**MANAGEMENT: MR. L. RAMKUMAR
MR. ARJUN ANANTH**



Tube Investments of India Limited
November 6, 2013

Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY'14 results conference call of Tube Investments, hosted by Axis Capital Limited. As a reminder all participants' line 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 this conference call, please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Kashyap Pujara of Axis Capital. Thank you and over to you Sir!

Kashyap Pujara: Good morning everybody. Thank you for being on the call. We are happy to have with us the management of Tube Investments represented by Mr. L. Ramkumar, Managing Director and Mr. Arjun Ananth, CFO. Without taking too much time, I now handover the floor to Mr. Ramkumar! Over to you Sir!

L. Ramkumar: Good morning to all of you and thanks for participating in this investor call. I will take you through the results of the standalone company, its individual divisions and then I will also run you through the performance of the subsidiary companies, the financial services, insurance, and Shanthi Gears.

As you might have seen, we have had a drop in the turnover compared to the same quarter last year that we have grown sequential 4.6% in the topline. The margins have been better. Profits from operations and before other income finance cost and exceptional items moved up to 7% in this quarter compared to 6.4% the previous quarter and 6.8% the same quarter last year. As a result we also see that the profit before tax is higher at 4.8% compared to 2.9% of the previous quarter, slightly below 5.4% of Q2 last year.

Now going to the individual divisions, I will start with TI Cycles. Here if you see the turnover, there has been drop compared to the last year the same quarter, but we have grown sequentially in turnover 5.9% over the previous quarter. The volume, which we did during the quarter, is 2.5% more than the previous quarter though lower than the last year. We ended up with 10.3 lakh bicycles for this quarter including an institutional order of 1.24 lakhs and standard bicycles.

Compared to the same quarter last year I think we maintained our special and we did better compared to the previous quarter of this year. In terms of profitability, our PBIT of this division is at 13.86 Crores lower than the first quarter. The main reason being we had the incidence of institutional sales, which gets us lower margins as well as cost increases during the quarter, which have not been passed on to the customer. We have since taken pricing action on October 1 to cover most of the costs and that should reflect in the next quarter.



Tube Investments of India Limited
November 6, 2013

Going to the engineering division, engineering division as you might have seen has grown 1% over the previous quarter, which is around the topline slightly below last year for the same quarter it was 1.4% on the topline. The PBIT of this division has been better than the previous quarter as well as the same quarter last year though the turnover has been around the same or slightly less. The main reason being a lot of work is being done in terms of cost savings, improvement in throughput and improvement in various levels of efficiencies where we have formed a number of teams, so this has resulted in the better profitability of this division. If you were to talk about the quantity this quarter compared to the last quarter we grew 5.1% in the CR strips division. The tubes home were roughly around same level as last year. We grew 2% over the previous quarter.

Exports we did 5.5% over the previous year same quarter and did around 11% more than the previous quarter of this year. So overall tubes in quantity I think during this quarter we grew 2.7% over the previous quarter and 0.7% over the same quarter last year.

Now coming to the metal formed divisions, as you know, we have a few products there. We have done well on the automotive chains. During the quarter, we grew 19% over the previous year same quarter and also better than the previous quarter of this year. The aftermarket again we grew by 35%, we grew by 5% in fine blanking. In the door frame, which is the other major product, we were lower than last year by 18% largely due to lower volumes from Maruti, General Motors, Tata's and Mahindra's. General Motors had its problem because of certain regulatory issues. Maruti also had scaled down its production during this quarter.

So, overall if you look at the financials of this division, we look at marginal drop in the topline by 1% compared to the same quarter last year, but we grew 10% over the previous quarter of this year itself. As far as railway products are concerned, we did better than the previous quarter of this year but definitely much lower than last year. As you all know Railways have just announced the new tender, but we have been servicing some of the orders of the workshop like northern railway, southern railway and others. So EBIT was better compared to the previous quarter at 19.39 Crores and slightly it is definitely below last year. This is the situation as far as metal form products are concerned.

Going forward we are seeing reasonably good pickup in demand in cycles. We have also taken the pricing actions. We believe we are also aligning our supply chain better, which is the reason why Q2 in the last month, I think we did better than what we have done in the previous months. We are also working on new products, which we would like to introduce and some more rationalization of the supply chain which will definitely help the deliveries.



Tube Investments of India Limited
November 6, 2013

In the case of engineering, the main focus is going to be on efficiencies and improving quality and service in order to retain the market share, we have definitely maintained or slightly improved our market share in specific segments in the precision steel grips. The metal formed business chains will continue to grow with a growth in the two-wheelers. Fine blanking is going. The main increase is coming from supplies to various passenger cars, component manufacturers, while passenger car industry itself has not been doing well, fine blanking business is doing well because of the new programs, we are doing import substitution or we are being listed as a second supplier to some of the products.

On the industrial chain front, the export sale continued to be not very good though we have run slightly better than what we anticipated, the exchange rate has also been slightly beneficial in this case. This is overall as far as TII standalone businesses are concerned.

Our new project for the large diameter tubing where we are investing only 250 Crores is on stream, slightly affected in the schedule because of the unexpected rains during construction during the last few months. We hope to commission this plant in March-April 2014. Work is already on in terms of talking to customers and doing the business development activity.

Coming to some of the manufacturing subsidiaries, Sedis sales was better than last year same quarter, but still the market is sluggish in Europe. We are looking at various options of introducing new products as well as doing some manufacturing in India for them so that they can get some cost benefit in terms of certain products. Their EBITDA is slightly better than last year same quarter but going forward we are looking at expanding the product range and also looking at newer customers, the combined effort of Diamond Chain and Sedis.

Shanthi Gears, all of you might have seen the results, which are anyway published, Standalone Company. We have seen better turnover compared to the previous quarter and also the previous quarter of the same year, and we also see there has been an improvement in profits in this division. There again the order book is good around 75 Crores. The market is sluggish as you know because of the industrial climate, but we continue to get traction for some specialized gearboxes. We are also exploring opportunities in the higher end of gearboxes by getting access to technology from some of the players overseas.

Coming to the financial services companies, which are subsidiaries of TI, during the quarter, the disbursement in Chola finance is 2828 Crores compared to 2662 Crores last year, a growth of 17% and the PBT moved up to 135 Crores and 103 Crores in the same quarter last year a growth of 33%.



Tube Investments of India Limited
November 6, 2013

Insurance business continues to do well. The gross written premium for year-to-date September has gone up by 15%. For the half year we are at 911 Crores for the quarter ended with 429 Crores. The profit before tax was 25 Crores, 24.8 Crores and cumulatively we are at 55.5 Crores for the half year. By and large this is the situation and I will be very happy to answer any questions any of you may have. Thank you.

Moderator: Thank you. Ladies and gentlemen we will begin the question and answer session. The first question is from the line of Mr. Sudhakar Prabhu from Span Capital. Please go ahead.

Sudhakar Prabhu: Good morning. My question is on your gear business that this quarter I think the results have been better. So what is your outlook on the sector and how do you see this segment performing?

L. Ramkumar: The outlook of this sector is linked to the capital investment in the country as well as the general industrial climate, but I think we are trying to fill up some gaps because in between before we took over the earlier management had lost some customers, so we are in the process of connecting with all the customers who were not being serviced in the last two years. That is one of the reasons why we are seeing some good traction and growth and order load. We believe the current trend will continue for another six months to 18 months before we catch up, in terms of our base topline.

Sudhakar Prabhu: In terms of utilization, what is the utilization of working debt?

L. Ramkumar: It is very difficult to calculate, but still there is a lot of scope for utilization actually.

Sudhakar Prabhu: Because just to understand with your existing gross block, is the turnover of 500 Crores possible?

L. Ramkumar: It is difficult to answer. We can do much more than what we are doing now. At any point of time, we have done almost double, if not double then 250 Crores. It depends on the product mix. So, I think as we are executing more orders, more difficult orders, we will be able to get a fix on this number.

Sudhakar Prabhu: In terms of competition, how is the competition in the sector. Is it still competitive?

L. Ramkumar: It is quite competitive. For example, there are standard gearboxes where you do not need much application engineering and designs there are hectic competition.

Sudhakar Prabhu: Who are the main players, Elicon and all?



Tube Investments of India Limited
November 6, 2013

- L. Ramkumar:** Yes. So there is a lot of competition in terms of pricing where it is very specialized or customers have been with us because of our design etc., is where I think we have a little easier way. Otherwise there is lot of challenges in maintaining the price.
- Sudhakar Prabhu:** Thank you and all the best.
- Moderator:** Thank you. The next question is from the line of Mr. Uday Raj who is an individual investor. Please go ahead.
- Uday Raj:** Good morning Sir. All my questions will be on Shanthi Gears only. At the outset, I would compliment the management immensely for excellent performance improvement in the topline, bottomline of September 30. The net sales as you will be aware have increased by 22.5% it is not increased, it is a jump over quarter-on-quarter. It is also interesting to note that the material cost as a percentage has decreased from 35% in June to 33% in September 2013. Is not this significant sudden jump of turnover and lower vehicle cost ratio by about 2%? That is question number one. Question number two, employee cost has decreased by about 17% over June quarter, and 45% over June 2012. What was the reason for the significant increase in employee cost? Number three, fixed deposits have been 51 Crores and the current investments have been 30 Crores totalling to 90 Crores as on March 31, 2013. What is the position of these two total put together as on September 30, 2013 and what is the expansion plans in the pipeline to utilize these funds?
- L. Ramkumar:** What is the last question, I did not follow?
- Uday Raj:** What is the proportion of the fixed deposits in current investments as on September 30, 2013 and the expansion plans in the pipeline to utilize these funds? Fourth one what is the extent of capacity utilization during FY'13? Five, as mentioned in MDF for FY13, the total for the industry could be 4000 Crores in the next five years, considering the quality of the products and the quality of the management what is the market share, wish to garner and plan for the next five years, about 10%. That is the question I am asking. Number six what is the revenue guidance for FY'14? Number seven since the headquarter of the group is in Chennai, is there any likelihood of shifting the register of the company Shanthi Gears to Chennai? These are the questions, Sir.
- L. Ramkumar:** Not that I do not forget all the questions; I will start in the reverse order. There is no plan to change the headquarters as of now. As I mentioned to your predecessor it is very difficult to give a percentage of capacity utilization because it depends on the product mix, but I can tell you that there is easily scope for doing much more than what we are doing now. It could be 50% or 60%. Then if you ask me if there is any guidance of how much will be the



Tube Investments of India Limited
November 6, 2013

market share in five years, very difficult to say. We are just learning the business. I think in January-February we will do the plan for the next year, I mean, for the next year and next two to three years, we will have some clarity. As and when we think we are clear, we will be able to say, but I think the scope is good. As far as the total liquid funds are concerned, we have 115 Crores. What is the utilization, which we are planning to do? At the moment, as everyone of you is asking we are having capacity, we may have to add some marginal facility or we may have to get into some technology agreements with some of the people, some of the people from the western part of the world in Japan have approached us, saying they want to work with us to reach the Indian market or to buyback from us, so this will take another three to six months for us to viability of this, if this is going to work, then we may have to set up a separate facility or we may have to set up some additional facilities or products, which we do not make. So that will be one of the uses for this money in terms of capital expenditure. This again will get displaced sometime in March-April. As far as your ratios you are talking about employee cost mainly since we took over in September of last year, after we took over.

Uday Raj: September as well as June quarter?

L. Ramkumar: No. we took over in September of last year, ever since we took over in September in October or November we gave an increase to all the employees. The previous people held it back. They did not know when they are going to sell off etc., so there was one step jump in terms of the salaries and wages. That is the main reason for the increase in salaries and wages. In terms of turnover jump as I have been saying that we have been going after customers who are with us and we are trying to improve the coverage and reach, where Shanthi had a good name but in between we are not supplying. So for some time we will see a good growth even though the economy is not growing it maybe like getting back some lost customers and other people who would otherwise would have brought from us, but for the fact that the company decided to stop supplies from two to three years back. So this is how it works.

Uday Raj: Revenue guidance for FY14?

L. Ramkumar: We do not give any guidance. I would think things will go like this.

Uday Raj: Numbers for FY14?

L. Ramkumar: Number is something which we do not normally give. This is not our practice. So we can give you as much as we know about the current situations.



Tube Investments of India Limited
November 6, 2013

- Uday Raj:** What is the conservative market share which you wish to garner in by another five years, 10%?
- L. Ramkumar:** Give me some time to answer this question, not in this call. Five years is a long time, you know. Everybody is now looking at 2014 May.
- Uday Raj:** I wish it would be 400 Crores company in the next five years.
- L. Ramkumar:** We also will work towards something like that definitely, but you are asking me a question I should give you a very responsible answer, right.
- Uday Raj:** Thank you Sir.
- L. Ramkumar:** Everybody is looking at May 2014 to predict many things. So it will not be right for us to put a number now, but as and when we are ready with our plans we will let you all know.
- Uday Raj:** But there is no mention about the expansion plans in your annual report?
- L. Ramkumar:** In which annual report?
- Uday Raj:** The FY14?
- L. Ramkumar:** Of Shanthi Gears? Are you talking about Shanthi Gears?
- Uday Raj:** Only Shanthi Gears. I am talking about Shanthi Gears.
- L. Ramkumar:** There is no expansion plan. We have to utilize the capacity. First we will use the capacity to get more orders. As you know this company itself was doing a higher turnover with the same facility.
- Uday Raj:** How we wish to deploy the excess money of 90 Crores to 100 Crores?
- L. Ramkumar:** That is what I said, we are looking at some opportunities for tie-up or joint venture or technology purchase, which we are looking at two three options.
- Uday Raj:** Acquisitions also?
- L. Ramkumar:** I do not know, maybe acquisition or maybe it is mostly technology, I think. It does not look like acquisitions.



Tube Investments of India Limited
November 6, 2013

- Uday Raj:** Thank you very much Sir.
- Moderator:** Thank you. The next question is from the line of Pratik Poddar from ICICI Prudential. Please go ahead.
- Pratik Poddar:** I joined in a bit late; could you give me the GWB numbers, the gross return premium numbers of Chola?
- L. Ramkumar:** Chola Insurance gross return premium is 429 Crores for the quarter ended September 2013.
- Pratik Poddar:** Sir, what would be the combined ratio?
- L. Ramkumar:** Combined ratio is I think 99.97%.
- Pratik Poddar:** This is for the quarter?
- L. Ramkumar:** Correct.
- Pratik Poddar:** For the previous quarter it was?
- L. Ramkumar:** Last year was 100. Last year Q1 was 100.5 and this year Q2 is 99.7.
- Pratik Poddar:** So there is some improvement in your combined ratio?
- L. Ramkumar:** September 2012.
- Pratik Poddar:** This improvement in combined ratio is because of?
- L. Ramkumar:** Better costs and efficiencies.
- Pratik Poddar:** Third point just on Shanthi Gears, what would be the current capacity utilization?
- L. Ramkumar:** Did you hear the answer I gave to the other participants.
- Pratik Poddar:** I joined in a bit late otherwise I would not have argued.
- L. Ramkumar:** There is scope for improvement. I do not know whether I can say 50% or 60%, there is quite a scope for improvement in capacity. It is not 80% or 90% that is all I can say, because it depends on the product mix. If we get some complicated products then it goes through all the lines and then the capacity comes down. We are in the process of finalizing



Tube Investments of India Limited
November 6, 2013

what kind of product we should be in. So there is no equivalent, some take more time, some take less time. So, we can say comfortably we have another 30% or something like that.

Pratik Poddar: Thank you. Sir, I was just listening to you mentioned something from buyback from us with some Japanese customers I could not understand that one?

L. Ramkumar: I did not say buyback. I said some of the overseas people like Japanese and the Europeans are working with us to see if they can give us technology for higher technology gearboxes and they can also buy some parts from us for gears. If that works out then I said, that there maybe some investments and there will be additional turnover also from them.

Pratik Poddar: Thank you Sir. Thank you so much.

Moderator: Thank you. The next question is from the line of Bharath Subramanian from Sundaram Mutual Fund. Please go ahead.

Bharath Subramanian: Good morning Sir. Thank you for the opportunity. Sir in terms of the standalone business, if you could just talk in the metal forming business how has been the performance between doorframes and chains and railways in specific?

L. Ramkumar: Chains have done well, as I told you. In the case of chains, we have had a growth over previous quarter as well as over last year same quarter. Over last year same quarter we grew by 9.5%. JDC which includes chains and fine blanking. In the case of the doorframes and railway business we are down by 19%. Railways we are already low. So I think in quantity we are down by 45% in the door over the same quarter last year. So, the income has also affected there.

Bharath Subramanian: In terms of engineering division, we have seen an improvement in margins. If you can just throw some color on what has been the drivers behind this improvement? Is it we have taken up price increase to some extent?

L. Ramkumar: Not really. We have not taken any price increase, but as I told you it is more of better control of costs, improvement in quality, productivity of labor, and better consumption of raw material you can say by reducing scrap, because there are lot of drive that with a lot of pressure from the market side, so that has yielded in some improvement.

Bharath Subramanian: Sir, these are kind of sustainable at the current levels?

L. Ramkumar: Yes, we believe so, because these are all done after a lot of careful thought with a lot of things and we are continuously working on it. It is not one-off kind of benefits we have got.



Tube Investments of India Limited
November 6, 2013

- Bharath Subramanian:** In terms of our overall exports what would be that quantum in terms of value?
- L. Ramkumar:** I will give you that number.
- Bharath Subramanian:** Lastly, one housekeeping question in terms of the large tie-up project how much is to be spent on that?
- L. Ramkumar:** Another 80 Crores we have to spend largely on building, which is being in progress. Half year it is 95 Crores exports and for the quarter it is 50 Crores.
- Bharath Subramanian:** Thank you.
- Moderator:** Thank you. The next question is from the line of Mr. Vikas Garg from L&T Mutual Fund. Please go ahead.
- Vikas Garg:** Thank you very much for taking my question. Sir, following the previous question one on Shanthi Gears which I gather that you do not have any major capex plans or any expansion plans of Shanthi Gears and also on response to the second question where 80 Crores is the number which you have just indicated on the capex for one of the project? Can you please help me with the total capex requirement for the second half of this financial year and also for the following year?
- L. Ramkumar:** Around 150 to 160 Crores for the second half of this year and next year I think we are still working out. We are not in a position to tell you know. We will do it in February or something.
- Vikas Garg:** On the gearing of the company, which has been below one for many years, it is the same for the last financial year and financial year 2013 before acquisition and all, so going forward any possibility in terms of expected gearing will it remain below one or it would remain at the similar levels maybe 1.1 to 1.2 kind of a thing, which is as of now?
- L. Ramkumar:** We will maintain around the current levels.
- Vikas Garg:** Sir, can you please give me the total debt number at Tube Investments on a standalone basis and Shanthi Gears?
- L. Ramkumar:** 1400 Crores is TI. Shanthi Gears is virtually nothing.
- Vikas Garg:** There is no debt in Shanthi Gears at all?



Tube Investments of India Limited
November 6, 2013

- L. Ramkumar:** We only have cash.
- Vikas Garg:** Thank you very much Sir.
- Moderator:** Thank you. The next question is from the line of Mr. Kashyap Pujara. Please go ahead.
- Kashyap Pujara:** Just wanted to ask you pertaining to the insurance division, we basically have absorbed close to 14 Crores of loss from the Motor Pool and if I add that back then the PBT is around 40 Crores. We have a pending 27 Crores 25-26 Crores kind of a pending loss. So, is it fair to assume that that would be completely absorbed in the current year?
- L. Ramkumar:** 27 Crores.
- Kashyap Pujara:** So that would be completely absorbed in this year itself?
- L. Ramkumar:** Yes, correct.
- Kashyap Pujara:** Going forward then in that case, the profitability from the insurance division will be more reflective of the actual number that is likely to get generated?
- L. Ramkumar:** It is all subject to market conditions.
- Kashyap Pujara:** Where do you see your combined ratio like where we have been seeing consistent improvement in the combined ratio and so far already there have been some price increases at least basically on the third party pricing and everything, and we have not yet seen detariffing to that extent. So what do you think our combined ratio could eventually come down to? What is your like say two or three year kind of a vision as to where are you budgeting it?
- L. Ramkumar:** Frankly I am not able to say we will budget for the next year, but we know the best in class what is the combined ratio. So we are benchmarking to see how we can get there. Every year we are looking at 1% to 1.5% improvement over the previous year and I think after some critical mass I think the ratio can improve also dramatically. So maybe we can answer this question in February or something.
- Kashyap Pujara:** While there has been some infusion actually in the underlying entity at a reasonably good valuation and it typically values that entity to close to 3200 Crores approximately. Basically when we would be in a position that that entity will continue growing without any incremental infusion because now that investment book and the scale of the operations are



Tube Investments of India Limited
November 6, 2013

reaching a size and if the combined ratio continues to improve we would surely hit a mark where we do not require any further infusion into that business?

L. Ramkumar: I think we are very close to that phase actually. Probably the requirements in the coming years may not be as high, and like you said as it improves, I think, the investment book will take care of all this.

Kashyap Pujara: Whenever FDI norms are amended in that sense or there is a possibility of insurance FDI we definitely yet have or we could pair down some stake and deleverage? Would that be a right process to assume going forward?

L. Ramkumar: As you know these bills and other things we keep talking as and when it is announced I think we will look at all options.

Kashyap Pujara: Lastly on the core business front, clearly there has been sequential improvement across businesses, and metal form division we have seen a reasonably good jump in profitability despite the other two divisions which is a doorframe and the railways actually underperforming to that sense. I wanted to take your sense as to what is the roadmap you see on the railway front going forward? We are clearly underutilized in terms of capacity there. What is the overall outlook you are seeing for this division and how are division will pan out in that sense? Second is about the automotive division. Are you seeing early signs of pickup or what is the growth which you are working on in terms of the automotive front?

L. Ramkumar: On the railways, the railways have just announced a tender just last couple of weeks back. Now this will be a test for us as to one of the reasons why we are not doing well in Railways is one is the vagaries of orders second is the pricing also. The pricing has also come down. So we need to really take a call on how we want to do this business or do we want to do this business at all. So we will look at the current trend of who are the players and what is the demand supply and we will take a call. So I am not able to say more than that because at least now they have announced. Previous year I think they did not announce any tender at all. In between they skipped one year. So, obviously there is not much use for this **excepting** we have been doing some business work, all these workshops for northern railways, southern railways all those regional railways. On the automotive sector, we are not very bullish about the future excepting the two wheelers, we think there will be some growth maybe a single digit 5% to 6% growth, in the passenger cars, if we hold on to the same as last year I think, we should be happy. That is the kind of thing we are looking at. Commercial vehicles I do not know. At least the drop will come down. They will drop less.



Tube Investments of India Limited
November 6, 2013

- Kashyap Pujara:** Lastly, from my side, would be regarding the import substitution. Like in the tube side of the business are you seeing like while your capacity is expanding on the large dia-front, but overall are we seeing some amount of traction from import substitution wherein we are getting more competitive in our traditional business compared to what we were earlier considering that rupee has now actually at a new norm?
- L. Ramkumar:** There is not much import substitution in the current range of tubes. We are largely automotive and I do not think they import much tubes at all. If at all we only import some steel to make some tubes. The new projects are based on tubes, which are being currently imported. So that is an import substitution. There could be some import substitution in the case of fine blanking parts, which we would be importing now they want to make it here and things like that. Otherwise, I do not see a great import happening in tubes right now, in precision tubes at least.
- Kashyap Pujara:** Basically what would be our capex plans overall now that this balance will be spent for the large dia you are saying in this year. So, if I were to look at it from a two-year perspective then what is the kind of capex plans which you would envisage?
- L. Ramkumar:** Two years, mean this year I think it will be 200 Crores and maybe 210 Crores including major thing in the new projects. Next year we are finalizing. We have to see because bulk of the things earlier we had talked about is capacity expansion, but now we have to see what we want to take on the capacity whether we can fit the same assets to some extent, it is happening in some places and the industry continues like this probably we would like to postpone the investment to middle of next year or something like that. I really am not able to say. Normally we have as you know some 60 to 75 Crores or so, normal capital expenditure for replacement and those kinds of things, but if you talk about specific projects, new products, expansion, we need to wait and see.
- Kashyap Pujara:** Fair enough. Thank you so much.
- Moderator:** Thank you Sir. The next question is from the line of Mr. Nitesh Chawla from Banian Capital Advisors. Please go ahead.
- Nitesh Chawla:** Thanks for taking our question. Congratulations on a good set of number on Shanthi Gears. Specifically as I look at your balance sheet that you have filed for September end the fixed assets have gone dramatically to the tune of about 25-26 Crores and I was just wondering if it some asset sales that you are doing, which had been talked about a couple of quarters ago where Shanthi Gears had excess land and there was some talk about selling that so if you could just comment on that?



Tube Investments of India Limited
November 6, 2013

- L. Ramkumar:** No sale of anything. I think it is depreciation.
- Nitesh Chawla:** It is pure depreciation.
- L. Ramkumar:** Yes.
- Nitesh Chawla:** No update on selling of the excess land in Shanthi Gears?
- L. Ramkumar:** Nothing. We are focusing on operations and sales how to improve there.
- Nitesh Chawla:** The other question is related to the cash conversion cycle, the inventory days seem to be pretty high north of 300 days, so is there something unique about this business that we should continue to expect such high inventory days?
- L. Ramkumar:** This is about Shanthi Gears?
- Nitesh Chawla:** Just about Shanthi Gears?
- L. Ramkumar:** I think we need to keep some inventory to have some flexibility there, but you would have seen it. It has come down compared to last year September 30, 2012.
- Nitesh Chawla:** That is correct and that is why I am asking the question that it has come down quite a bit from last year but still at an absolute level it is still north of 300 days, so therefore the question that you know do you see more room for improvement?
- L. Ramkumar:** Yes we can maybe slightly tighten but not too much. If we want to grow, I think we need to keep some variety inventory also, which gearbox order you will get sometimes it will be stabilized, we need to be ready with different types of inventory that is why it adds up.
- Nitesh Chawla:** That is all I have. Thank you.
- Moderator:** Thank you. The next question is from the line of Lakshminarayanan G from Catamaran. Please go ahead.
- Lakshminarayanan G:** Good afternoon Sir. Couple of questions, first on the power situation in south, because I remember a couple of quarters back you mentioned that the cost impact in cycle was to the tune of Rs.15 to Rs.18 or something like that. How this has actually changed now in south particularly in Tamil Nadu where we are?
- L. Ramkumar:** I did not get the question.



Tube Investments of India Limited
November 6, 2013

- Lakshminarayanan G:** I remember you mentioning two or three quarters back that the power cost, cost of power had actually gone up, either nonavailability of power or availability of costlier power, now how that has changed? Has it been some kind of positivism has come in?
- L. Ramkumar:** I think our availability of power has improved from the Grids. It brings down the cost. Second we have also been purchasing power from third party, which is cheaper than running our own generator sets.
- Lakshminarayanan G:** On a standalone basis, what kind of benefit we have actually got by this cost reduction? Can you quantify that?
- L. Ramkumar:** May be a few Crores, 2-3 Crores for the half year.
- Lakshminarayanan G:** Second question pertains to the cycle business. Now you look at the business it has an institutional component and non-institutional component. How this has actually changed and then how do you actually plan for this business because there has been quite seasonality across freight, across institutional and non-institutional? How does one take into account this and how it is panning out?
- L. Ramkumar:** Actually it is like this. Increasingly the institutional sales are becoming a very important factor in the standard segment and almost most of the states do it in some form. Like Tamil Nadu and Karnataka tender it to the cycle manufacturers and they supply to them through them it reaches the consumers or whomever they want to give. Places like Uttar Pradesh and Bihar they had a scheme where consumer can buy any bicycle and go to the government and show the invoice and get a rebate. Now as far as we are concerned we are not participating in every institutional order. We find from a logistics point of view it is easy to do either Tamil Nadu or Karnataka, Andhra also we have done a small quantity. We are not participating in the rest of the country, like Chhattisgarh, Madhya Pradesh, etc., where they have a similar tender. That is one thing. Second is from the time the institutional order is announced there is a time for you to bid and then get the order and execute. They also give you 60 days, 90 days and 120 days like that. So it is an activity, which we will plan for if you get the order. Otherwise you will only concentrate on the trade, distributors, dealers and our own shops through whom we supply the bicycles.
- Lakshminarayanan G:** Usually what kind of proportion of institutional to government institutional you actually keep in your business plan, which is like 40% of your sales or 50% of your sales or how much it is?
- L. Ramkumar:** Less than 10%. Last year we did 40.6 lakh cycles of which 3.5 lakhs was institutions.



Tube Investments of India Limited
November 6, 2013

Lakshminarayanan G: Sir, the other question is in cycle division, I remember that you had increased your capex in cycles from almost like 11 to 12 Crores last year to almost 60 Crores plus. I just see that in your presentation you had actually mentioned that the capex for cycles/components of e-scooters is around 68 Crores for the current financial year?

L. Ramkumar: Where on the website, is it?

Lakshminarayanan G: I took it from your presentation in the website, so is it that high or am I reading something wrong?

L. Ramkumar: No originally we thought of putting up a new plant. I do not know what point of time we have updated this, but currently we are thinking of expanding in our Nasik plant and doing some marginal expansion in the north also.

Lakshminarayanan G: How much we can actually think of the total capital expenditure for cycles for this quarter?

L. Ramkumar: Maybe 15 to 20 Crores.

Lakshminarayanan G: Sir, and just one last question related to our French subsidiary, I remember that the PBT is not meeting your expectation at some point in time. What is the plan for that and are we finding better synergies from there to Indian industry or how are you thinking about this subsidiary?

L. Ramkumar: We are definitely looking at making parts from here, which they can assemble and sell in France.

Lakshminarayanan G: That will actually made in for example will our Shanthi Gears as well as Diamond would work together on this or is it only the Diamond part will work on this?

L. Ramkumar: To start with it will be chains but they are also looking at sockets and gears. Sockets they have already deal in, but gears they do not, but we have exposed them to our plant. These guys were here and we are sending them some catalogues and all that.

Lakshminarayanan G: Any numbers in terms of what is the kind of PBT which we have made in this company in the last half year?

L. Ramkumar: Half year I think, I gave the number. Their half year is June actually, January to December. Half year they did a turnover of 116 Crores and PBT of virtually zero. Q2 they did a turnover of 61 Crores and PBT of 1 Crores.



Tube Investments of India Limited
November 6, 2013

Lakshminarayanan G: Thanks very much Sir.

Moderator: Thank you. Since there are no questions from the participants, I would like to hand over the floor to Mr. Pujara.

Kashyap Pujara: Thank you so much for being there on the conference call. I thank the management of Tube Investments for taking time out to attend the call. Thank you so much Sir.

L. Ramkumar: Thank you Kashyap and thanks everybody.

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