



“Tube Investments of India Limited Q2 FY16 Results Conference Call”

November 4, 2015



MANAGEMENT: MR. L. RAMKUMAR – MANAGING DIRECTOR, TUBE INVESTMENTS OF INDIA LIMITED
MR. ARJUN ANANTH – EXECUTIVE VICE PRESIDENT AND CHIEF FINANCIAL OFFICER, TUBE INVESTMENTS OF INDIA LIMITED

MODERATOR: MR. FARZAN MADON – AXIS CAPITAL LIMITED



*Tube Investments of India Limited
November 4, 2015*

Moderator

Ladies and Gentlemen, Good Day and Welcome to the Tube Investments Q2 FY16 Results Conference Call hosted by Axis Capital Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Farzan Madon from Axis Capital Limited. Thank you and over to you, sir.

Farzan Madon:

Thank you for being with us on the call. We have with us the management of Tube Investments represented by Mr. Ramkumar – Managing Director and Mr. Ananth – CFO. Sir, over to you.

L. Ramkumar:

Good afternoon. First of all, welcome to this investor call of Tube Investment. I am here with my colleague Mr. Arjun Ananth who is the CFO of the company. I shall first take you through the standalone results of the company and then also give you some numbers and perspective on the consolidated results.

We had a negative growth of 2.8% over the same quarter last year. You may know that many of the commodity prices have firmed up continuously on the lower side which has also had an impact on our revenues in terms of the selling price. And our growth over the previous quarter this year is (-4%), in the H1 overall we grew by 0.6% in overall turnover terms.

On the profit side, we have done relatively better. Our Q2 profit percentage, profit from operations before other income, finance cost and exceptional item is 6.8% over the previous quarter of 6.1% and the previous Q2 of last year of 6.5% which means almost we have maintained the same percentage of 6.4% profit from operations to turnover half year, this half year versus the last half year.

Looking at the segmental revenues during this quarter we grew by 2% in cycles and components, we dropped by 9% in the case of engineering and had a marginal drop of 3.6% in metals from the products. But we had a good improvement in profits in terms of the bicycle business, we grew by 39.6%, the profit before interest and tax was a division, there was a drop in the engineering division and metal formed division profit dropped by 2.7%.

Now coming to the overall consolidated results of Tube Investments of India Limited which includes couple of manufacturing companies as well as the financial services, I have the following numbers.

First of all, during the consolidation there has been some change because the financial services shareholding changing during the half year, so the numbers in the consolidated results as such are not directly comparable with the standalone results of Cholamandalam Finance which was



Tube Investments of India Limited
November 4, 2015

published which gives the exact impact of both the turnover and profits in terms of Chola Finance. For Chola Insurance it has been the same practice as last year.

So in the case of Chola Finance which is one of the major subsidiary companies hitherto, the disbursement year-on-year all because of Q2 grew by 21%. Our total revenues of interest income went up by 10% and profit before tax went up by 26% that is 185 crores over 144 crores same period last year.

Coming to the insurance business, we had a growth of 8.5% in the top-line but there was a drop in the bottom-line largely due to higher cost of acquisition and also having claims more than expected because of the monsoon issues during the last season.

Now I will also talk about some of the operating subsidiaries in the engineering services which is basically the gears and gear products. The Shanthi Gears has done well in terms of the growth of 12.4% in turnover for the quarter and also 9.8% half year. In the case of profit, there has been a significant improvement almost double during this quarter compared to the same quarter last year and 134% growth in the half year period.

Now quickly taking you through the volume numbers which we normally talk about. In the domestic market bicycle volume grew and the trend was almost flat, there was no big growth. Institution grew by 12% and overall there has been a growth of 2%. In the case of cold rolls strips we dropped by 13% largely linked to automotive and import of cold rolls strips coming into the country affected our business. In the case of domestic tubes a volume drop is overall 2% but we did improve our exports in terms of volume, Q2 of last year versus this year we are up by 3.5%.

In the case of metal forming business, the door frame dropped by 3% largely linked to the passenger car volumes and there has been continuous drop in the wagon business for which the government has not given the orders as yet but there has been a significant improvement in the coaches, we make coaches for ICF, this business is growing.

In the case of chains, we dropped by 2% over the same quarter last year, in the case of aftermarket we grew by 10%, the export of chains was lower by 12%.

So, broadly if we look at, these are some of the numbers segment wise. In terms of key things we have had good run in terms of institutional sales in the case of bicycle. The domestic market has been flat but we have taken a number of initiatives including introducing the number of new models especially in the high end of the segment as well as opening up a new retail format which will offer all our range of products. We have named the new format as track and trail, first couple of stores have been opened, we will have much more of them coming in as we go along which we believe will definitely promote all our products.



*Tube Investments of India Limited
November 4, 2015*

During the quarter we also signed a licensing agreement with a company called Ridley which is associated with high end bicycle sports, racing etc in Europe for a 33 year period by which we will get a license to market their product as well as make some of their products which is suited to Indian market along with their help and their help in design and manufacturing.

In the case of tubes, we continue to be maintaining our market share in the cold drawn welded tubes where we have a very dominant share. In the large diameter tubing which is getting stabilized during Q1, all the technical issues are behind us. Almost all the problems have been fixed so we are able to roll all the sizes and produce the various samples that are required in order to get the sales done. Now these samples are with various customers and definitely the volume of business during the Q2 has moved up compared to Q1. We expect this to continuously move up during the years improving the capacity utilization of this facility.

In the case of metal forming, the door frame business continues to hold on but we are definitely affected by the fortunes of the end users of our products like many of the products launched by one of the major automotive maker has not been moving well, one of them is doing well but overall the business has done reasonably well. The wagons, I told you on the CRF sections and what we do for ICF is improving.

In the case of automotive chains, there are more chains used in motorcycles than in scooter, those scooters are growing, we do have a significant market share there. So, because of the drop in volume of the motorcycle chain the overall OEM volume has been flat but we continue to have a significant market share, we would have improved our market share by 0.5% during this quarter. We continue to focus on the aftersales market and this has definitely given us the benefits in terms of top-line and bottom-line.

Fine banking business which you have been concentrating, we are getting approved by more and more discerning customers and in the quarters to come we would see good growth here. And, in terms of industrial chains our subsidiary Sedis, its performance has been pretty flat, in the last quarter. Overall market has been very muted so they did well in the first half of their financial year which is January to December. The market has not been favorable but a number of initiatives are being caught off in terms of exploring new markets and the new products for the future.

Shanthi Gears, the order book is around 81 crores, that's we are speaking in the beginning of November and the quarter has been good and we are working with a number of long-term customers who would definitely give us more sustaining business as we go along, a number of operational issues have been sorted out and streamlined, customer deliveries have improved and that's all reflected in terms of the growth in turnover and the profits.



*Tube Investments of India Limited
November 4, 2015*

Overall, I think our finance charges have been at almost the same level as the previous quarter, which means despite some CAPEX and other things we have been tight on finance charges both from a utilization point of view as well as the cost of finance in terms of borrowing.

Now, broadly I would say this is what we have to say as the initial remarks on the performance of the company, we will be very glad to answer any questions that you may have.

- Moderator:** Thank you very much. We will now begin with the question-and-answer session. Our first question is from the line of Farzan Madon from Axis Capital. Please go ahead.
- Farzan Madon:** Sir, just wanted the volume numbers of the tube and steel strips, sorry we could not just hear you. The total overall volume de-growth was?
- L. Ramkumar:** You want the tonnage of the tubes?
- Farzan Madon:** The tonnage also would be fine.
- L. Ramkumar:** Tubes in Q2 we did 41,000 tons.
- Farzan Madon:** And strips would be?
- L. Ramkumar:** Strips we did 14,000 tons.
- Farzan Madon:** And just one more question, sir what is the progress on Santhi Gears right now, I mean are we seeing more orders, clients coming back, how do we see the next one couple of years, one two years?
- L. Ramkumar:** See, we are definitely seeing some of the older customers are coming back, though it is taking a little time for us to build up the business because during our absence they went to other suppliers, so we need to give a reason why they should come back. Some of the customers we used to have 100% share in the earlier period I believe, maybe progressively the share will go up from 10, 20, 30, 40, 50, 60 like that. Plus, we have also been contacting some of the people who are wanting some new products to be developed with us which is basically on the basis of import substitution, or outsourcing of some of the units who do not want to make this in-house any more, these are being done. With this, I think the order book in future will go up. And we are also being very careful in choosing the orders in terms of the technology involvement etc so that we do not get into very commoditized product where the competition is very high.
- Farzan Madon:** Sir and in the large dia tube mills what are the current production, I think last quarter we were doing somewhere close to 800, 900 tons?
- L. Ramkumar:** Yes, last quarter we did about 2,000 tons, this quarter we are around 4,000 tons, hopefully it will go up.



*Tube Investments of India Limited
November 4, 2015*

- Farzan Madon:** You already had 4,000 tons in Q2?
- L. Ramkumar:** Yes.
- Farzan Madon:** Sir and how much would we be losing in this tube mill as of now because of...?
- L. Ramkumar:** See, this particular facility we are very close to an EBITDA breakeven now.
- Farzan Madon:** Sir and the import substitution is what we are looking at in this segment?
- L. Ramkumar:** That's true.
- Moderator:** Thank you. Our next question is a follow-up from the line of Farzan Madon from Axis Capital. Please go ahead.
- Farzan Madon:** Could you highlight the strategy in your insurance division, I mean what are the growth rates we are looking at again in terms of acquisition cost, is this a onetime item or is this going to continue and what kind of combined ratio are we seeing?
- L. Ramkumar:** Going forward definitely we are looking at growth, but Arjun will explain.
- Arjun Ananth:** Combined ratio is 106% and regarding going forward we do not really give the guidance. The current year our gross written premiums should be slightly higher than the previous year and we expect the same on our profitability as well as our investment brokers about 3,500 crores right now yielding over 9%
- Moderator:** Thank you. Our next question is from the line of Rakesh Shah, he is an individual investor. Please go ahead.
- Rakesh Shah:** Sir any plans to divest stake in Cholamandalam, now that since it is no longer a subsidiary of Tube Investments? Thank you.
- L. Ramkumar:** It is not a subsidiary but there are no plans of divesting anything from Cholamanadalam, this has happened because of increasing the capital and our percentage has come down, we are not planning anything like divestment.
- Moderator:** Thank you. Our next question is from the line of Vipul Shah from Sumangal Investments. Please go ahead.
- Vipul A. Shah:** I just want to know what is our market share in insurance business?
- L. Ramkumar:** We will let you know, is there any other question, in the meantime we can answer that.



*Tube Investments of India Limited
November 4, 2015*

- Vipul A. Shah:** And our insurance venture is a 100% subsidiary or...?
- L. Ramkumar:** We own 74%.
- Vipul A. Shah:** And 26% is owned by?
- L. Ramkumar:** Owned by Mitsui Sumitomo.
- Vipul A. Shah:** So are they involved in the management also sir?
- L. Ramkumar:** Sorry?
- Vipul A. Shah:** Means they are just financial investors or they take part in...?
- L. Ramkumar:** They are helping us in the management also.
- Vipul A. Shah:** And can you give me the trajectory of premium increases over last four five years, means directionally?
- L. Ramkumar:** We will have to work it out, maybe we can take it offline if you do not mind.
- Vipul A. Shah:** Whom should I write to if I want the answer?
- L. Ramkumar:** You can talk to Axis people who are coordinating, they will definitely get in touch with us and we will give you.
- Vipul A. Shah:** But market share I hope you can give right now.
- L. Ramkumar:** Both this information I will give it to Axis.
- Vipul A. Shah:** Which individual I should contact in Axis Capital sir?
- L. Ramkumar:** Sir normally we deal with Kashyap and Farzan, you can write to Farzan he will give it to you.
- Moderator:** Thank you. Our next question is from the line of Rajendra Mishra from IDFC. Please go ahead.
- Rajendra Mishra:** Sir can you just throw some light on this, you said continuous drop in wagon business and there is some improvement in coaches business, so if you can just explain it a little more, what components and where is it going?
- L. Ramkumar:** Sure, see wagon business is something for which we have setup a plant in Uttarakhand with a lot of capacity and our fortunes are directly linked to the orders of wagons released by the



*Tube Investments of India Limited
November 4, 2015*

Indian railways. Currently the wagon builders to whom we supply our parts have not got the orders from indian railways for first half of 2014-15, even the second half orders of 2014-15 have not been released, then comes 2015-16. So, things are going pretty slow, to that extent we really do not have much business, the plant is idle. Coming to the coaches business, we supply to Integral Coach Factory. There has been a very good pick up in terms of their demand and we used to do very few coaches, maybe two, three coaches per month and the rate of production is going up to 10 coaches per month now. We expect and we have a backlog for another say 18 months to 24 months. So this is what I meant when I talked about coaches and wagons.

Rajendra Mishra:

And in coaches what exactly you make, what exactly you supply?

L. Ramkumar:

See, what we make is what we call as side walls and end walls, so if you see a train when passengers are sitting on the seat near the window you will see lot of windows on full sheet of steel piece, so there is a lot of welding etc which is required. So it comes in two sides of the coach and also at the end of the coach where each coach ends and then it is joined to the next coach, so these two we call it as side walls and end walls.

Rajendra Mishra:

And on this you specifically said on the motorcycle chains that you said because you have a good market share but it has seen some reduction in volume and all that, so how much market share we have in that?

L. Ramkumar:

Significant, I do not want to give the exact number but it will be very-very high, you can take it 40% plus.

Rajendra Mishra:

The reason I asked delved on this because we are looking at some OEM numbers and scooter sales has been very high in this last quarter, so it won't have any application in scooters, right?

L. Ramkumar:

It will now, it is like this. In scooters, there is a timing change which is starting, in motorcycle there is a drive chain and the timing chain. So, for every motorcycle there are two chain and we talk number of feet in terms of length. So of course the number will not be the same, but we do have a very significant share in scooters also. So we are talking about an aggregate number of chains we make during the quarter. You get the point, we have also grown in scooters. Net is not more than last quarter, it is almost the same.

Rajendra Mishra:

And just one last thing on your operating capacities, can you just share with us capacity utilization both at the aggregate level and if possible at the three segment level cycle engine products and metal products?

L. Ramkumar:

See, in the case of cycle probably we will have a 15% to 20% capacity more, as we had said earlier, a new plant is being constructed to enhance the capacity in Rajpura in Punjab which we would commission sometime during the middle of next year, that's the scene in cycles. But



Tube Investments of India Limited
November 4, 2015

cycles is seasonal, the difference between maximum and minimum demand can be sometimes as high as 30% to 40%. I have said that we can take it that we have a 20%, 25% levy in terms of cycles. In terms of tubes, we will be very tight, we should be operating in the range of 85% to 90% capacity. In the case of chains, maybe we will be between 80% to 90%. And yes, broadly this is the capacities at which we are operating.

Moderator: Thank you.

L. Ramkumar: In the meantime Arjun will just give the market share, one gentlemen asked about into that.

Arjun Ananth: The gentlemen asked for the market share, our market share for the first half of this year is 2.5%.

L. Ramkumar: 2.5% and remains the same as last year.

Arjun Ananth: And we are number seven amongst the private insurance.

Moderator: Thank you. Our next question is from the line of Karan Bhatia from IIFL. Please go ahead.

Karan Bhatia: Sir I just wanted some highlight on the recent exports of kids cycle, so how has been the demand down there?

L. Ramkumar: See, at the moment we are only exporting kids bicycle which are without gears etc up to what we call as 20 inch wheel size which may be used by children up to the age of 6 or 7. And we just started in a small way last year and this is going steadily now, probably it would have done 20,000 - 25,000 cycles in the first half of this year and an equal number in the second half.

Karan Bhatia: Sir and any institutional order on the way when you talk of high end bicycles which are in the range of 7,000 to 8,000?

L. Ramkumar: See, the institutional orders are all standard bicycles, they not in the range of the high end bicycles. What I meant by institutional orders normally what we refer to is the government order, so we got an order from Tamil Nadu, Karnataka and now we are executing a big order from West Bengal. But otherwise the institutional orders maybe like we go to some institution it maybe of the order of 200, 300 like that, it will not be huge numbers like that.

Moderator: Thank you. Our next question is follow-up from the line of Vipul Shah from Sumangal Investments. Please go ahead.

Vipul A. Shah: Sir what should be the average realization per cycle, if you can give any ballpark figure, average selling price of bicycle?

L. Ramkumar: It varies, we sell bicycle from dealer price of 2,500 upwards to 15,000.



*Tube Investments of India Limited
November 4, 2015*

- Vipul A. Shah:** But majority of that should be in the lower bracket or in higher bracket?
- L. Ramkumar:** See, now the whole thing is getting fragmented, it maybe 3,500 to 4,000.
- Vipul A. Shah:** 3,500 to 4,000 should be the average price, that is what you are trying to convey, right?
- L. Ramkumar:** Yes, yes.
- Moderator:** Thank you. As there are no questions at this time, I would now like to hand the floor over to the management for closing comments.
- L. Ramkumar:** Thank you. We appreciate all of you taking time off and thank you for your questions and we will hope to be in touch with you again next quarter. Thank you very much.
- Moderator:** Thank you. On behalf of Axis Capital Limited that concludes this conference. Thank you for joining us and you may now disconnect your line.