



**“Tube Investments of India Limited
Q2 FY2020 Earnings Conference Call”**

November 01, 2019



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Moderator: Ladies and gentlemen, good day, and welcome to the Tube Investments of India Limited Q1 FY2020 Earnings Conference Call, hosted by Axis Capital Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kashyap Pujara from Axis Capital Limited. Thank you, and over to you, Mr. Bagul!

Aditya Bagul: Good morning everyone and thank you so much for standing by. It is a great pleasure to have with us the management of Tube Investments Limited for discussing Q2 FY2020 earnings. From the management side, we are represented by Mr. Vellayan, who is the Managing Director and Mr. K. Mahendra Kumar, who is the CFO. I will now hand over the call to Mr. Vellayan. Mr. Vellayan over to you Sir and a big congrats for a good set of numbers.

Vellayan Subbiah: Thanks Kashyap. Thanks a lot and thanks for hosting this call again. Good morning everybody. Basically, the Board met yesterday and we approved financial results for the quarter ended September 30, 2019.

Overall, the revenue is down. We have had a drop of 18% over the same quarter last year. That is mainly driven by degrowth in the auto industry. The good news is that our PBT is up at 111 Crores which is a growth of 31% over the same quarter last year and our PAT obviously because we benefit significantly from the reduction in tax rate was up by almost 58%.

Out return on capital employed has also improved. We have gone to 22% in the first half and our free cash flow is at 154 Crores, which is at 86% to PAT on a cumulative basis.

One other thing we are also doing is opting for the lower tax rate of 22% and recognizing the resultant benefit over three quarters this being the first quarter and the current and the next quarter as well.

The PAT for the overall business was at 90 Crores as against 57 Crores in the same quarter last year. I will get into each of our individual businesses.



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Engineering business revenue was at 554 Crores compared to 772 Crores of last year and PBIT for that business was at 63 Crores as against 65 Crores and the ROCE for this division is at 36% which is slightly lower than the 37% we had last year.

Cycles and accessories, we basically had a revenue drop of 31%, one of the reasons is because we are also going slow on the institutional business and our PBIT was at 6 Crores against 5 Crores in the corresponding quarter of the previous year. Here I have to really compliment the cycles team because in a tough market and without kind of much revenue from the institutional business, we have still done a lot on the efficiency front to improve our performance there. ROCE for the division was at 21% compared to 10% last year for the first half.

On metal form products, our revenue was at 379 Crores compared to 336 Crores in the same quarter last year, a growth of 13%. PBIT was at 40 Crores versus 31 Crores and the growth has come from railways, industrial chains and fine blanking and that had to help offset some of the degrowth in orders. ROCE for this division at 32% compared to 27% and on a consolidated basis our revenue was at 1247 Crores and our PAT was at 93 Crores as against 67 Crores.

Shanthi Gears which is our subsidiary and had revenues of 71 Crores as against 59 Crores and that is a growth of 19%. PBT there for the quarter was 12% as against 11% the same quarter last year.

Overall, we continue to be very optimistic about the future at TI and I just think that we just see a lot of opportunities whichever the market goes over the next year and next couple of years. I will just stop with that commentary and be happy to answer any questions that you may all have. Thank you.

Moderator:

Thank you very much. We will now begin the question and answer session. The first question is from the line of Sagar Parekh from Deep Finance. Please go ahead.

Sagar Parekh:

Good morning Sir. Congratulations for excellent set of numbers. Sir my first question is on the gross margins. For this quarter, we saw one of the highest gross margins at 40.5% so we have highlighted in the past about sourcing new different sourcing strategies which will help our gross margins, but just wanted to get your sense that from now onwards do you think these gross margins are sustainable or is there a further improvement, which is possible?



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- Vellayan Subbiah:** At the gross margin level, I think these are about the right numbers. Always what will continue to change is the overall mix of the business overtime and that might help us, but in some of the existing businesses, I think this is a good set of numbers to work with though I do think that overall for PBT improvements there is still quite a bit of headroom for growth, but at the growth margin level, I do think that for existing businesses they should stay about the same.
- Sagar Parekh:** So, the lower realization in terms of steel prices going down would have also helped, right, in the last couple of quarters so assuming steel prices go up from here is there a chance that gross margins will fall or do you think that it can be passed on?
- Vellayan Subbiah:** It is to an extent. For us it is kind of significantly moderated by the fact that a lot of our steel is just a pass through and we have to adjust for prices up or prices down. To an extent, you are correct, but for the most part, I would say that that does not affect us as much.
- Sagar Parekh:** Got it. Secondly on the exports front we have highlighted in the past that a lot of focus is there on the exports, so firstly what was the exports growth number for H1 and Q2 and how much does it contribute in the total mix?
- Vellayan Subbiah:** Actually exports has been flat and what you have seen is also that kind of in the existing segments that we are in we have also seen degrowth in terms of the export market and so that is part of the challenge we had. So, for the year kind of exports have been flat versus last year.
- Sagar Parekh:** How much does it contribute?
- Vellayan Subbiah:** Overall it is about 8% to 9%.
- Sagar Parekh:** Sorry, 8% to 9%?
- Vellayan Subbiah:** Yes.
- Sagar Parekh:** On the Cycle division you highlighted that there is still headroom for margin expansion from the current levels also, so where do you see the sustainable margins going forward and where do you see the demand picking up over there or do you think that these kind of numbers will continue for the next at least couple of quarters?



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- Vellayan Subbiah:** See, I have always said that I am not a good predictor of whether the demand is going to pickup or not. Our focus is to be ready for a situation where demand picks up. Our focus is to be, but to be also be able to deliver profits and bottomline if demand does not pickup. And from that perspective, what we are doing is a lot of belt tightening and also improving a lot. We have restructured our entire logistics infrastructure in the country to streamline it for the new environment and a lot of the efficiency changes that we have started making has started yielding results. We have also done a lot of work on working capital, bringing some of our inventories down in that more efficient as well. So, both from a cash flow perspective and from an overall PBT perspective, some of the actions that we have taken has started yielding fruits but the team there is also significantly focused on more opportunities, so we definitely see a more of that coming in the next coming year as well. So, we actually are very bullish about improving margins in that business.
- Sagar Parekh:** So, about 4% to 5% that you have mentioned in the past looks like it will come soon then?
- Vellayan Subbiah:** That is correct.
- Sagar Parekh:** What is our net debt number as on September?
- Vellayan Subbiah:** Yes.
- K Mahendra Kumar:** 289.
- Sagar Parekh:** 289 Crores, so we have repaid about 80-odd Crores I think?
- K Mahendra Kumar:** As compared to the beginning of the year, we are down by almost 225 Crores.
- Sagar Parekh:** Great Sir. That is it from my side. Wish you all the best.
- Vellayan Subbiah:** Thank you.
- Moderator:** Thank you very much. The next question is from the line of Kiran Karthik from Table Tree Investments. Please go ahead.
- Kiran Karthik:** Good morning, Sir. Congratulations on good set of numbers. Sir, we stopped elaborating on Shanthi Gears order numbers, if you could just tell us what is happening in the business or



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the book numbers and we have had new business as well, so if you could just elaborate on that?

Vellayan Subbiah: Shanthi Gears basically like you said, we do not give any specific commentary on that but the business continues to be strong. I would definitely say that industry is seeing some kind of pressure because of the overall environment as well, but I think overall we continue to be fairly strong and fairly bullish about that business going forward.

Kiran Karthik: Got it Sir. Any particular order book number Sir? Because last year we had about 200 Crores order book in the second quarter FY2019 that the management discussed, so are we around the same number? Have we increased?

Vellayan Subbiah: Again, I think you asked the question and I said, we do not specifically discuss the order book numbers.

Kiran Karthik: I will probably ask the revenue question then. So, we are getting to a 70 Crores quarterly runrate from a 60 Crores quarterly run rate. Do we think the 70 Crores revenue quarterly runrate is a decently sustainable number in your view?

Vellayan Subbiah: Yes. We do. Some of this depends on the environment and like I said, we are seeing some general and it is a tough environment even for that business and I do not want to predict when the thing will pickup, but in general is that doable? Yes.

Kiran Karthik: Last question if I can squeeze in. The gross margins have kind of reduced, is it the general demand slowdown and therefore we are taking some price pressure?

Vellayan Subbiah: Yes, basically that is right. That is correct. Your statement is correct.

Kiran Karthik: Thank you so much Sir.

Moderator: Thank you. The next question is from the line of Yash Agarwal from JM Financial Limited. Please go ahead.

Yash Agarwal: Good morning Sir. Congrats on a good set of numbers. I had a question on the Engineering division. It has pulled down sharply this quarter about 28% to 29% revenue decline, so is this more of a function of the decline in production in auto, so what is the outlook here as in it should get better, right from here?



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- Vellayan Subbiah:** Like I said, part of the challenges we do not have a crystal ball kind of, are able to predict when the markets are going to look up, but what we continue to remain confident on is that we are using this cycle to focus on all other things that we started articulating last year and it is actually a great opportunity for us to focus on quality improvement and productivity, on moving more to the production system, looking at our logistics, looking at power, and it just gives us a lot more time to do that. To your specific question, do I think second half is going to be better than first half, all of these things, it is a coin flip kind of. Honestly, I do not think anybody knows right now, so I do not want to speculate on that because I am not going to give you the right answer. I mean, my answer has a 50% chance of being correct.
- Yash Agarwal:** Exports seemed to have again disappointed in the second quarter. I think it was doing all right in the first quarter.
- Vellayan Subbiah:** Exports definitely there was a slowdown particularly Europe and EU has slowed down significantly and we saw a significant inventory buildups in the EU across most categories that we export and so what we have to see is how to bring that back and our belief is that the EU inventory situation is correcting. Their year basically ends in December and what most people tend to do is then stock up for the next year so I would say that is encouraging from that perspective. It is driven by a slowdown in the EU.
- Yash Agarwal:** Sir on margins, you spoke about a 10% PBT in the next two years, I think H1 we are already there, so would you like to revise that?
- Vellayan Subbiah:** Yes, I just think obviously first is to sustain it and kind of lock into this. That is the first objective, but obviously yes, I mean as a number if we are able to stick at this number for a year, we will revise it up. You are asking for a target and by when I would say we will set the next target at 12%.
- Yash Agarwal:** A few more questions, the other expenses, they are down about 20% year-on-year so, how much is it a function of decline in topline and how much is the actual cost cutting, the non-required cost cutting? How much would you attribute to split the decline in other expenses too?
- K. Mahendra Kumar:** A large part of it is volume driven, but there are also efficiencies which came in, so I would say out of the decline maybe around 20% - 25% is related to efficiencies.



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- Yash Agarwal:** Sure. Lastly on the new products, I think, you had highlighted three or four products or vision products, truck body etc., so can you give some sense how significant can these three four products be for you? Some colour on these new products?
- Vellayan Subbiah:** I think and I have mentioned this multiple times, every time I articulate them, which is the way you have to look at these, these products are kind of more driven by like you would use start ups, which is you do not start measuring these products on the same matrix as others. Like I have openly kind of said we are going to do ten of these over three years and then only four of them are going to succeed, but the way I look at it is we will continue to be very bullish about the three that we have announced and to us right now the matrix is not there, but do we feel like the actual opportunity is real and we continue to believe that the opportunity is real in those three business.
- Yash Agarwal:** Thank you.
- Moderator:** Thank you. The next question is from the line of Abhishek Ghosh from DSP Mutual Fund. Please go ahead.
- Abhishek Ghosh:** Thanks. Could you help us why the other income is higher in the current quarter? Is it related with the yield or is there anything else there?
- K. Mahendra Kumar:** There was one final dividend from SGL which was declared after Q4, so that has been received in Q2.
- Abhishek Ghosh:** So about 7 Crores to 8 Crores would be attributable to that?
- K. Mahendra Kumar:** Yes about 6 Crores.
- Abhishek Ghosh:** Thanks. We see a sharp decline in payables in first half of FY2020 and is that also somewhere that we have been able to get better pricing as far as raw material procurement is concerned on account of that? How should one look at that?
- Vellayan Subbiah:** I would say the part of it is also that we are basically buying less because we have been working with our inventory situation also a fair bit and so that is also driven by the fact that we are just buying less right now in lot of our businesses.



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- Abhishek Ghosh:** So, you have cut down on inventory as well as the payables part of it, both is what you are saying effectively?
- Vellayan Subbiah:** That is right.
- Abhishek Ghosh:** Sir, if you can just help us understand that given whatever slowdown that we have seen in the auto segment, how was your pricing with the OEM kind of setting across. We have also seen a reduction in raw material but there is a sharp slowdown in the auto demand, which is effectively turning into a lot of discounts. So, how is your pricing on a product basis hanging on with them?
- Vellayan Subbiah:** Besides the steel pass through, I would say, in most situations, we have been able to hold. What we are beginning to see is very interesting in the industry which is we are beginning to see players who have weak balance sheet, get a bit more desperate in this space and that is causing them to basically kind of try and grab more business to discounting and all that, but what we only see right now from what we can tell from the outside is that their balance sheet continues to deteriorate. So, actually that is why I think if this environment continues for a long time I would not be surprised if we kind of begin to see some kind of weakness, and because of that weakening kind of a number, the supplier base, I would think that some kind of exits would have to happen because of that but obviously we cannot speculate on what others are doing.
- Abhishek Ghosh:** So, what you are essentially seeing is as of now whatever impact you have seen in the raw material of prices, the same amount has been passed on, but nothing beyond that at least as we speak?
- Vellayan Subbiah:** There is always a little pressure, but we have not passed on too much.
- Abhishek Ghosh:** Have you been able to firm up as far as what is the capex that you will incur because in the cash flow statement that you have given out, I do not know if that is a correct number that capex seems to be of 106-odd Crores, but what is the exact capex that you have incurred in first half and likely FY2020 capex?
- Vellayan Subbiah:** Around 100 Crores is what we have spent in the first half.
- Abhishek Ghosh:** For the year what is the number? Do we have that?



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- K. Mahendra Kumar:** 200 Crores.
- Abhishek Ghosh:** That is about 200-odd Crores. Okay. Thank you so much for answering my questions. All the best.
- Vellayan Subbiah:** Thank you.
- Moderator:** Thank you. The next question is from the line of Arun from Capital Markets. Please go ahead.
- Arun:** Thanks for the opportunity. Good morning. I have a couple of questions on Shanthi Gears. Looking at the half yearly numbers of the last three fiscals of Shanthi Gears, the H2 operating margin is lower than H1 at least by more than 200 BPS any specific reason for this trend Sir?
- Vellayan Subbiah:** I think the first half, my general thoughts would be kind that we keep focus on TI because obviously Shanthi Gears has its own investor communication and we do that as well. I would prefer that. Sorry what is your question again?
- Arun:** The H2 margin for the last years, H2 margin is more than 200 BPS lower than H1 margin in the last three fiscal? Any specific reason for this kind of trend, the change in trend and will this trend continue going forward?
- Vellayan Subbiah:** No. I do not have the answer to that question off the record. We can look into it, but I do not have the answer to that.
- K Mahendra Kumar:** He is comparing H2 with H1.
- Arun:** This trend is happening only for the last three fiscals?
- Vellayan Subbiah:** We do not have the answer to that question
- Arun:** Another one the Shanthi Gears itself how is the order book visibility, and where are you seeing the traction in orders for Shanthi Gears?
- Vellayan Subbiah:** Somebody earlier had just kind of asked a question on order book and like we said we are not sharing the order book data anymore because we do not think that is a best reflection of what is happening in the business.



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- Arun:** Otherwise what is the service income for the H1 Sir for Shanthi Gears?
- Vellayan Subbiah:** Again we do not show segmental income at that level, but basically the service income is up significantly.
- Arun:** Thanks a lot Sir.
- Moderator:** Thank you very much. The next question is from the line of Sreemant Dudhoria from Unified Capital. Please go ahead.
- Sreemant Dudhoria:** Good morning. Thanks for the opportunity. Sir firstly in the metals division you had highlighted the railways industrial chain and fine blanking have done quite well, so if you could please highlight what kind of growth we have seen in these three areas and the contribution from these segments to our revenues?
- Vellayan Subbiah:** On average across the three segments I think we were achieving close to about 40% plus growth and the second in terms of contribution they tend to be a higher contribution segments as well. So they are higher in the average for metals.
- Sreemant Dudhoria:** Based on your current order book and the visibility that you have in these areas do you think that these kinds of growth rates are sustainable in the near term?
- Vellayan Subbiah:** Yes, we do believe that at least in a couple of those businesses we will continue to have higher growth rate.
- Sreemant Dudhoria:** You had highlighted about the gross margin responding to the earlier question, but below the gross margins if you could please highlight what further initiatives are there in the pipeline, which could lead to further reduction in our operating costs?
- Vellayan Subbiah:** Like I said the first just on quality. We started off this movement to go to TQM and we are about one year into that journey. It is a five-year journey and our belief is that five-year journey will result in at least kind of a 2.5% improvement in PBT to sales. The second is on productivity and that links to IoT where we basically started connecting all of our equipment across all of our plants and that we believe again is going to result in significant gains where we started looking at some of the data we have already seen close to 20% plus in gains in productivity and we think that that at least another 15% to 20% exists across that ecosystem. So that is a huge area of opportunity for us and I would say that there is



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significant work to be done on that area as well. The third effort that we have is on the production system where we have begun to implement that in some of our operations and we will continue to roll that out across our entire system. What that does is kind of work first off just overall inventory levels and it also obviously helps on the quality and productivity side as well, but it also helps us significantly kind of improve our mix and our alignment with end customer requirements and the production system initiative is also about I say nine to 10 months. That again is going to be a three-year plus initiative and every year it will give us gains, not just on the inventory and the working capital side, but also on the productivity and quality side as well. The fourth is what we started to do with freight and logistics where we have begun to get some gains in, but I still think that there is significant gain to be had. We have started looking at our warehouse infrastructure and kind of seeing what the optimal warehouse infrastructure is required across the country. There is a lot of work on getting backhaul and reverse load and getting better price efficiency across our entire network given our size and buy, which is close to Rs.300 Crores in spend across our system, so we see significant opportunity there that we will continue to get. Power continues to be a very strong area for us where we think that the significant value to be had on that, we are putting rooftop solar across all of our facilities. That gets us a significant gain. Looking at basically how we reduce the overall cost per unit across our system and then basically just are looking at just even just an overall fixed cost structure why do we need run processes the way we do right, so we are looking at what we can do. A lot of simplification internally to reduce bureaucracy levels and make decision making much more efficient, so there is significant head room in that and still a lot of opportunity to come from those areas over the next three years.

Sreemant Dudhoria: I will come back in the queue. All the best.

Moderator: Thank you very much. The next question is from the line of Lakshmi Narayana from TN Capital Advisors. Please go ahead.

Lakshmi Narayana: Thanks. A few questions; first, is pertaining to the tax rate reduction. Post the tax rate reduction some of the OEs have said that they would actually pass on the benefit, so it is clear you being asked to part away some of your benefit if you get from the tax I mean how is it looking? The second question is related to the Cycles and Accessories and if I look at the six months there has been a dip in the revenue, but at the segmental level the margins have been quite good and the third question is pertaining to Shanthi Gears just want to know what percent of revenues comes from customized gears and what is the exports plan for Shanthi Gears? These are my few questions.



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- Vellayan Subbiah:** I missed what is the question was on Cycles specifically.
- Lakshmi Narayana:** Cycles and Accessories if I look on a six months basis, I see the revenues have come down; however, the margins at an absolute level has been quite steady in comparison to the revenue dip, I just want to understand the dynamics of it? Is it because of institutional mix or what plus my question regarding cycles.
- Vellayan Subbiah:** To your question on whether there is pricing pressure I always think that there is pricing pressure from the OEMs. The OEMs are very strong players in the country and basically always and are very kind of intelligent and acute players in this country, so I think it is a natural kind of tension that always has to exist that there will be kind of a desire to kind of reduce price, but the bigger thing that we continue to kind of offer to the differentiate is just a very level of quality in all of our products and we continue to believe that if we can just stay very focused on quality, we can manage a slight price premium over our competition right and so that is something that we continue to focus on which is why we continue to maintain that focus on quality and we are investing significantly on getting better quality across our system. To your second question on Cycles yes we did kind of significantly reduce our institutional business, but the gains and margins in cycles have come purely from efficiency. The team has put in a lot of effort to basically streamline cost across the entire mix to basically get us much better efficiencies and throughput in that business and that is beginning to yield fruits. Like in answered earlier we also think that there is more headroom for growth in that business in terms of both margin expansion and that is the whole kind also leading to potentially share growth overtime and your third question was on Shanthi and that question what is the Shanthi question customization. In terms of nonstandard versus standard basically Shanthi is much of a custom shop and I would say almost 60% to 70% of our revenues come from custom gear boxes and gears. That is in terms of that number.
- Lakshmi Narayana:** Exports of Shanthi Gears?
- Vellayan Subbiah:** Exports is fairly small at this stage. I think it is about 3% to 4%, but that is the focus area for us, so we hope to cross that overtime.
- Lakshmi Narayana:** Thank you so much.
- Moderator:** Thank you very much. The next question is from the line of Shyam Sunder Sriram from Sundaram Mutual Fund. Please go ahead.



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Shyam Sunder Sriram: Good morning and congratulations on very good operating performance Sir. Sir just on the metal forming side you did mention the industrial chains have done really well whereas what the commentary we hear from some of the large bearing manufactures on the industrial side seem to indicate there is a slowdown there. How would you look at the industrial segment for a chains business going forward?

Vellayan Subbiah: We are very bullish about that segment and I think there is a lot of opportunity both domestically and exports. We are beginning the scratch the surface on exports, but we think that there is a lot of expansion to come on the export side in that business and domestically we have a pretty good market share. We have almost I think significant market share in that business, but what we see in that business is that the number of new applications that are coming out is increasing quite significantly and that gives us a lot of reason to be optimistic about growth in the domestic side as well.

Sham Sundar: In a sense it is market share gains that are bringing us growth? Is that a fair assumption, so new application?

Vellayan Subbiah: And new markets.

Sham Sundar: Within the domestic as well leaving the export side?

Vellayan Subbiah: That is correct.

Sham Sundar: Understood Sir. On the railway side if you can talk of new initiatives what is driving the strong growth here? Is it because of some gain in share from the weaker players or is it from structural shift happening to LHB coaches that is leading to this kind of good momentum on the railway side?

Vellayan Subbiah: Shyam there is a lot of pickup in demand from railways. I think we are very bullish and the government is also very kind of bullish and kind of on how much they are going to focus on improving the whole railway system and I think the minister there has been kind of very proactive and very encouraging of growth. We are very optimistic and that optimism is kind of reflected across all the railway facilities. What we have done is moved beyond just ICF here in Avadi to kind of all the different locations, MCF and RCF all of them and that is one side of it. The second is we started getting export quality volumes and the third part is that is we have also started doing work with the metro guys and from metro this is also included in the railway business for us and metros are both domestic and export by the way.



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- Shyam Sunder Sriram:** Understood. Here we do the panels and all that right for the coaches?
- Vellayan Subbiah:** We are looking at additional components as well, but yes panels, is our main product.
- Shyam Sunder Sriram:** Understood. Sir just one more thing on the aftermarket side how is the aftermarket behaving specifically on the auto side of the chains business if you have to look at it?
- Vellayan Subbiah:** Well, definitely growing significantly there and we see a lot of opportunity to continue that growth. There is a certain amount of aggression overall on pricing, but the good thing for us is that because we did not have huge geographic spreads just improving our geographic spread itself is getting us roads in that business, but more the team has been putting in a lot of work to look at kind of new products that are specific and catering to the aftermarket, significantly value adding in the aftermarket segments, so again that segment is I am very encouraged by and I think it will continue to grow for us because that is something that we are focusing heavily on.
- Shyam Sunder Sriram:** The underlying market is also pretty okay Sir because we hear of some liquidity challenges with the dealers, but you are not seeing that kind of pressure there is it?
- Vellayan Subbiah:** Honestly, there is a bit of liquidity challenge, but it is something that we have to manage through. We have a multilayer distribution infrastructure and we are very careful about how we manage that, but is there pressure and are SMEs facing kind of work capital problems absolutely, there is no doubt about that.
- Shyam Sunder Sriram:** Understood Sir. Just one last thing on the working capital side this question was asked before specifically on the trade payables just want to confirm is there any change in terms of trade there in terms of the trade payables per se?
- K Mahendra Kumar:** There is nothing. There was no specific change.
- Shyam Sunder Sriram:** Thank you Sir. That is it from my side.
- Moderator:** Thank you very much. The next question is from the line of Kashyap Pujara from Axis Capital Limited. Please go ahead.
- Kashyap Pujara:** Mr. Vellayan just a couple of questions. Firstly, while you have guided earlier the strategic intent to be at 10% PBT sustainably we already there and seems there is still a lot of steam



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left in terms of further cost reduction initiatives and also cycle margins, which are still to go to the sustainable 5% mark, so at this point would you kind of up this trajectory and can our business potentially be at a point where our PBT margins can be in the 12% to 15% kind of a range over a three to five year period?

Vellayan Subbiah: Kashyap, absolutely can we get there over a three to five year period? Absolutely, like I said before let us deliver kind of 10% over kind of a sustainable timeframe, but then after that yes will we push for 12% to 15%, there is no doubt. We are looking constantly at mix what we can do to improve, but between mix and efficiency yes we will definitely get there.

Kashyap Pujara: The net debt is already now may be at working capital levels or slightly below, so I would intend be kind of continue till we get any opportunity to grow inorganic or adjacency? Would it be fair to assume that we will actually get to a zero debt position by the end of this year or next year?

Vellayan Subbiah: I would say zero debt by the end of this year is aggressive, but you are right in terms of how we are looking at it, which is we will continue to kind of invest in capital as required for growth into the existing businesses. We will continue to invest in new businesses that require that capital for growth, but with both those sets of investments we continue to believe that we can reduce our debt position overtime. That does mean that if we do not get into any kind of inorganic situations, we will move towards a situation where we are zero net debt or even positive in terms of cash, but to your question on inorganic, it is something that we will continue to look at, but we are not going to look at any full price kind of acquisitions in the market. We will just continue to be opportunistic and kind of see what presents itself, but we are going to be very patient from that perspective versus look at doing anything.

Kashyap Pujara: Sure and in the first call you can kind of laid out your strategic intent that 10% PBT, close to 30% intent of return on capital, 80% PAT to free cash flow and over a four to five-year period the thought process was that we should be close to Rs.10,000 Crores in terms of revenue, so may be 16% to 17% compounding as far as revenues, so most of the parameters are going as per plan besides the revenue, which I understand is not in your hand and you still maintain that you do not crystal gaze, which is fair, but could you give an update on some new adjacency and how they are progressing like the TMT bar initiative that you had spoken about. You had also said that there is something about the Vision side so there were three to four initiatives you had kind of alluded to in the previous calls if you can just explain what is the outlook on some of those segments?



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Vellayan Subbiah: Kashyap, I think I have answered this earlier in the question sequence. The point like I said before is that the way, you have to look at these are like startups and you do not kind of measure them with the same set of matrix that you measure kind of existing companies and so the way we look at them is that we see them. We have said that overtime we believe that we are going to see 10 initiatives and four of them are going to be successful and the way these work is that the four that are successful will be successful enough and after they will basically give us that 6% to 7% gap in growth that we look to fill with new businesses. Given that we continue to bullish about the three that we have started. Well, two have started one the factory is still getting built. That one the factory will be ready at the end, so we are hoping to get production in that March timeframe next year. We have started with production in terms of March or April so the end of this financial year and we continue to be kind of very bullish about the opportunity in those spaces as well so I think from our perspective we are quite encouraged by what we see there and we are also encouraged by adjacencies in our existing businesses that we continue to focus on and leverage for more business growth.

Kashyap Pujara: Wish you all the best.

Moderator: Thank you very much. The next question is from the line of Trupti Agarwal from White Oak Capital. Please go ahead.

Trupti Agarwal: Thank you for this opportunity. Excellent set of results Sir, but I just need a small clarification since you talk about PBT margins guidance has been 10% of PBT margin, I just want this clarification that when you got like a lower topline, a PBT margin of 10% is achievable much faster because of the denominator effect is that understanding fair? What I just want to understand is in terms of your own business plan the absolute numbers that you must have targeted for EBITDA, cash flow generation are those net, the PBT margin could look higher because of a lower denominator so just I hope you have got my question?

Vellayan Subbiah: I think that is a great point. Like I answered to a couple of earlier questions as well that is why I said the important thing for us is to sustain this margin overtime and internally also we look at it and say like how can we sustain this margin overtime. To a certain yes you are right in terms of like that behavior does exhibit, but that is why also we constantly kind of keep taking a look at our free cash flows and the return on capital employed because it is important and the more important thing I look at is if free cash flow and PBT are moving in the same direction or not, right? It would worry me if they were not, but your point is a good point, very well made point and that is why I can continue to emphasize that give us



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time to actually kind of lock in into this number over a sustained period and you have to be able to show the same number in a down cycle and an up cycle before. You can actually believe that the number is locked into.

Trupti Agarwal: Sure got it Sir. Thank you so much Sir and extremely inspiring to see and hear about things like IoT and all in a company like yours, I think it is exceptional. Thank you.

Moderator: Thank you very much. The next question is from the line of Sreemant Dudhoria from Unifi Capital. Please go ahead.

Sreemant Dudhoria: Thanks again. So you talked about newer applications of the industrial chain can you briefly highlight what areas we are supplying in these new applications just to understand are we replacing some existing vendors there or is it new products that are getting developed?

Vellayan Subbiah: Domestic and export varies a lot. Exports there are all kind of complex applications that Indian chain manufactures have traditionally not been in and we have started getting into those applications. Basically they are in the space of what are called adaptive chains, which means that you have a basic chain functionality, but then you add more functionality onto it by adapting the chain with different attachments onto it and that is a space that is offering us tremendous growth outside of India, so we will continue to develop innovative products and push it out into global markets from that perspective. In the domestic markets there are different kinds of products. One product for example continues to pick up a lot is parking garages. I do not know if you have seen this multilayer parking. I do not know if you are Mumbai, but Mumbai and places that has no space at all more and more people are beginning to go vertical and these multilayer parking structure basically require industrial chains as well and so we have good products that meet demands and things like that and products like that are continuing to grow. Agricultural applications in this country continue to grow with rotovator, seed drills and the application of the agricultural area continue to kind of grow as well, so those are both good segments for us and domestically we are seeing many segments like that. The third segment that is growing significantly is food processing and the food processing segment requires significant industrial chain applications as well.

Sreemant Dudhoria: Secondly, on the fine blanking division what is driving the growth there? Has there been a new customer addition, which is leading to the growth in that division?



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- Vellayan Subbiah:** Our existing customers are growing with us. The second thing with that division is that almost 40% of revenue comes from new products that we introduced in the last 12 to 18 months and what happens with these products is they have their growth cycle because you usually start with smaller volumes and then they start scaling after that. Fine blanking is a segment where we are investing heavily in new product developments happen is you go through your kind of entire PPAP and approval process with clients and then those products begin to scale. So it is not one product, but several, several products in that area. We also have some stronger customer relationships that continue to grow significantly for us and those are making products for the export market so we supply into them and then they make the final product and export it. These are global majors and they continue to scale well with us as well.
- Sreemant Dudhoria:** Contribution of the aftermarket division Sir in H1?
- Vellayan Subbiah:** You are talking about aftermarket chain?
- Sreemant Dudhoria:** No. For the overall business, the aftermarket what was the contribution from that?
- Vellayan Subbiah:** Yes, so we do not discuss aftermarket numbers in specific and honestly outside of chains we do not have huge aftermarket businesses, so that is all kind of embedded in the chains numbers.
- Sreemant Dudhoria:** Thank you so much and all the best.
- Moderator:** Thank you very much. The next question is from the line of R Govindaraj an individual investor. Please go ahead.
- R Govindaraj:** Good morning Sir. Congrats for the fine set of results Sir. Sir I want to know about I have been off late seeing many advertisements about the TI Macho or TMT bars in regional newspapers what sort of arrangement it Sir whether we are manufacturing out of it or it is only a market tie up Sir?
- Vellayan Subbiah:** It is not a tie up basically we focus on quality, on brand and the marketing for that so we have a significant inputs into quality and the whole production cycle as well.
- R Govindaraj:** But revenue will not flow into our account Sir?



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- Vellayan Subbiah:** No, we do not recognize the full revenue of the products in our accounts.
- R Govindaraj:** What is the volume offtake in the last three months Sir?
- Vellayan Subbiah:** We do not discuss numbers for any of the new businesses.
- Moderator:** Thank you. The next question is from the line of Shyam Sundar from Sundaram Mutual Fund. Please go ahead.
- Shyam Sundar Sriram:** Thanks for the opportunity again Sir. On the export front you did allude to the high inventory buildup that had happened earlier and which is now sort of destocking, so are we seeing any order cancellations there or is it more of a function of weak passenger vehicle market in Europe? How would you allude to this because we have always spoken of exports as being a very strong growth engine for us if you can give some color on what is happening on that front? That will be helpful.
- Vellayan Subbiah:** Basically, what we are doing on the export market Shyam is that we developed three or four new products where most of our revenues have come from and those products especially in the OEM side have to go through their own approval cycle before they can start picking up significantly. So that will be kind of a slower slow ramp and then once the pickup happens that will help us tremendously. You are right. Weakening kind of domestic demand in Europe is what caused the slowdown and like I said there was overstocking by the distributor, so basically about half our export business is distributed and half is OEM and the distributor side, the distributor and dealers side of the business had ended up overstocking and so they were cutting back on inventories and then basically what ends up happening is when they start stocking up for the New Year and for them the New Year begins in January so we will start to see some of that begin to exhibit, but that is basically what caused this slowdown for us.
- Shyam Sundar Sriram:** Understood Sir. This is largely on the tubes side right, engineered tubes?
- Vellayan Subbiah:** Yes we also do industrial chains, but those are two biggest export businesses.
- Shyam Sundar Sriram:** Understood. Sir just on the capex front, we have guided for about Rs.200 Crores capex for the full year? Broadly what are the areas where we are looking to add capacity because we have also cut capex from last quarter we had guided for about Rs.250 Crores to Rs.290



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Crores of capex for the year? From there we have cut now to Rs.200 Crores? Broadly what are some areas that we are looking to add capacity Sir?

Vellayan Subbiah: The three biggest areas obviously tubes and engineering continues to be a very big area for us. The second is the railways area where we are investing in significantly and the third will be kind of we continue to have strong relationships like auto business and our metal form auto business we see a lot of opportunity there as well, so that is a business that we are continuing to invest in.

Shyam Sundar Sriram: Metal form auto when you mean that is on the door panels that we do?

Vellayan Subbiah: That is right.

Shyam Sundar Sriram: Understood. Sir one last housekeeping question if I may, the unallocable capital employed is about Rs.800 Crores this quarter that has gone up from about Rs.700 Crores levels if you can help us understand what is there is that that will be helpful?

K. Mahendra Kumar: It mainly comprises of the surplus funds, which we have, which we have invested in mutual funds.

Vellayan Subbiah: It is basically we are holding on to debt on NCDs that we basically cannot close out so to offset that we have invested in mutual funds to tie that till we can kind of pay down the NCD.

Sham Sundar Sriram: Got it Sir. Thank you very much Sir.

Moderator: Thank you very much. The next question is from the line of Sujit Jain from ASK Investment. Please go ahead.

Sujit Jain: Specifically for the engineering division your topline came off by 20% and margins went to 11.4%? Now these are highest margins if I look at quarterly data since March 2011 and even during that quarter March 2011 actually the topline went up by 37% to 38% so what explains this kind of performance and is it sustainable?

Vellayan Subbiah: Yes, I think a couple of times this question was asked. I do agree with the point. I think the more important thing for us to focus on how much we can sustain overtime and I do think



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that in the engineering business margins will moderate from that level to slightly lower levels if you think of an average over the cycle.

Sujit Jain:

Thanks.

Moderator:

Thank you very much. I now hand the conference over to Mr. Kashyap Pujara. Please go ahead.

Kashyap Pujara:

We do not have any further questions. Thank you every one for getting on the call to understand Tube Investments and thank you Mr. Vellayan and Mr. Mahendra Kumar to answer all the questions patiently and wishing all the best for the remaining part of the year.

Vellayan Subbiah:

Thank you Kashyap. Thank you everybody.

Moderator:

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