



“Tube Investments of India Limited's Q4 FY'21 Earnings
Conference Call”

June 18, 2021



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MODERATOR: **MR. ANUPAM GUPTA – IIFL CAPITAL LIMITED**



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Moderator: Ladies and gentlemen, good day and welcome to Tube Investments Q4 FY'21 Conference Call hosted by IIFL 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. Anupam Gupta from IIFL Capital limited. Thank you and over to you, sir.

Anupam Gupta: Thanks, Aisha. Good morning, everyone and welcome to the Post Results Conference Call for Tube Investments. It is my pleasure to have the leadership team from Tube Investments joining us for the call, including Mr. Vellayan Subbiah, the Managing Director; Mr. Murugappan, the Chairman; Mr. Mukesh Ahuja who heads the Tubes business; Mr. Srinivasan who heads the Metal Forming business; Mr. K.K. Paul, heading the Cycle business and Mr. Mahendra Kumar, who is the CFO along with his Finance team. So I will hand it over to Mr. Vellayan for the opening comments and the Q&A thereafter. Over to you, sir.

Vellayan Subbiah: Thanks, Anupam, thanks a lot, and good morning, everybody. The board met yesterday and approved the Financial Results for the Quarter and Year end 31st March 2021. This year it took us a bit longer, we usually kind of close the quarter earlier, but it took us a bit longer because we had to wait for CG to complete their results, and so we had CG last week and we are just finishing TI now.

The board also declared an interim dividend of Rs.2 per share, and the same was paid to shareholders in March 2021. Now, we have recommended a final dividend of Rs.1.50 per share for the financial year 2020-21.

Revenue in the fourth quarter was at Rs.1,480 crores compared with Rs.935 crores in the same period last year. Revenue for the year was at Rs.4,256 crores, which is almost at the same levels as the previous year despite the pandemic impact during Q1. PBT for Q4 was at Rs.175 crores, a growth of 62% over the Q4 last year and PBT before exceptional items for the year was Rs.381 crores which is lower by 9.5% versus the previous year. The ROIC before tax was at 31.5% compared with 29% of the same period previous year. Free cash flow is at Rs.533 crores which is 195% of PAT now, that's not obviously kind of a normal unsustainable number. But our net debt was reduced from Rs.149 crores in the previous year to a surplus of Rs.10 crores in cash for the current year.

Obviously, there are two significant transactions around the free cash flow and net debt. The net debt number also has the impact of both our capital raise and the expenses around the CG acquisition, which was Rs.687.5 crores is what our outgo was.

In terms of Standalone Results, we talked about kind of most of the numbers, so, we have covered that.



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In terms of the Individuals businesses, revenue for Engineering was at Rs.854 crores in the quarter versus Rs.545 crores in the corresponding quarter previous year. The PBIT was Rs.92 crores as against Rs.75 crores, that was a growth of 22%. Revenue for the full year was Rs.2,317 crores versus Rs.2,258 crores in the previous year and PBIT was at Rs.251 crores versus Rs.264 crores in the previous year. For the year-ended March 2021, ROCE for the business was at 43% as against 40% in the previous year.

Cycles and Accessories division registered revenue of Rs.301 crores during the quarter compared to Rs.129 crores in the corresponding quarter previous year. PBIT was at Rs.17 crores compared to Rs.6 crores in the corresponding quarter of the previous year. Revenue for the full year was at Rs.847 crores versus Rs.781 crores in the previous year, and PBIT was at Rs.44 crores as against Rs.26 crores in the previous year. For the year ended March 2021, ROCE of the division improved to 62% compared to 15% of the previous year.

Revenue for the quarter in Metal Forming product was at Rs.401 crores compared to Rs.301 crores in the corresponding quarter, PBT was at Rs.40 crores compared to Rs.16 crores in the corresponding quarter previous year. Full year for Metal Forming was at Rs.1,274 crores compared to Rs.1,399 crores and PBIT was at Rs.87 crores versus Rs.123 crores. So for the year ended March 2021, ROCE was at 22% versus 27% in the previous year.

Consolidated numbers will include the four month period from CG. So we have a full quarter of consolidation with CG as well. So for the quarter numbers, the consol revenue was at Rs.2,733 crores as against Rs.1,031 crores in the corresponding quarter and PBT was Rs.237 crores as against Rs.89 crores in the corresponding quarter previous year. For the whole year, revenues were Rs.6,083 crores as against Rs.4,750 crores and the PBT was at Rs.454 crores versus Rs.425 crores.

As we discussed before, the company has acquired a controlling stake in CG Power and Industrial; we currently hold 53% and we have got warrants which basically we will subscribe in the next 18 months.

Shanthi Gears basically registered revenue of Rs.75 crores as against Rs.43 crores in the corresponding quarter of the previous year. PBT for the quarter was at Rs.12 crores as against Rs.0.5 crores in the corresponding quarter. Revenue for the full year was Rs.224 crores versus Rs.249 crores. PBT for the year was at Rs.26 crores as against Rs.33 crores in the previous year.

Commenting on the Financial Results, Mr. M.A.M. Arunachalam, also known as Mr. Arun Murugappan who is the Chairman of TII said, TII has closed the year with a healthy performance post revival of the economy from the first wave of the COVID-19 pandemic. The results are encouraging considering that the company had lost almost one full quarter of operations. We are hopeful that with the government's constant endeavor in controlling the



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spread of the COVID-19 pandemic and efforts towards maintaining the momentum and economic activity, the impetus in our operations is likely to continue. So thank you. I will stop with that, Anupam, and happy to kind of turn it over for questions.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Vimal Gohil from Union Asset Management. Please go ahead.

Vimal Gohil: Sir, my question is, firstly, I just missed on your comments on the working capital in the standalone business. We have seen receivable sort of increased quite sharply. Is this being a sustainable level? And the second one is will we be able to sort of pass on the commodity impact that we have seen this quarter in the next couple of quarters, so wanted to get an update there? And thirdly, I have some questions on the CG Power, if you wish to take so in this call?

Vellayan Subbiah: So first, I think, obviously kind of our preferences, we do not want to make this into a CG call, at the right time when some institutional coverage and other things start, we will start separate calls for CG. So that is a quick take on kind of CG because otherwise, what tends to happen is all the questions become CG questions in the TI call and that can make things a bit confusing. On your question in terms of the working capital number, I think like I have mentioned briefly this is not a sustainable level, we will kind of go back into positive working capital overall for the company. So what happened at the end of last quarter was a convergence of kind of several different phenomenon that basically led to a negative working capital number. To your second question on passing on the steel price increases, yes, our belief is that for a majority of clients, we should be able to pass on majority of the steel price increases, though we continue to be concerned that it is inflating at too high level, and we will definitely have other effects. So, we continue to kind of be quite concerned about the levels at which commodity prices are today.

Vimal Gohil: So would it be fair to say that maybe a couple of quarters down the line if at all commodities sort of stopped rallying here in a hypothetical situation, you will be able to sort of recoup your gross margins, this for the standalone business?

Vellayan Subbiah: Yes, that is our belief.

Vimal Gohil: Sir, if you can just comment on some of your newer initiatives, like maybe your Three-Wheeler electric vehicles initiative that you took last quarter, any sort of update there would be welcome?

Vellayan Subbiah: And like we said, progress continues on those fronts, right. Obviously, things have been slightly delayed due to COVID. Our initial plan was to try and launch it in the fourth quarter of this financial year. We are still working towards those targets, but it might get pushed out because we have had several delays due to COVID in this last quarter.

Moderator: Next question is from the line of Kashyap from Theleme Partners. Please go ahead.



Kashyap:

Couple of questions. Firstly, we have seen very good growth in the Cycles division. And historically, there seemed to be a view where the growth aspirations from the management side itself were like 5% to 7%, which would include maybe 2%, price growth and 5%, 6% volume growth, and obviously, we have seen quite a steady number this time. I remember you citing in earlier calls that the division head of cycles had an aspiration to be the best performing division, and we are already seeing some of those things panning out. So just wanted to check with you whether the growth expectations here going forward, should we kind of look at it differently versus the way the division has panned out in the past?

K K Paul:

We work on a set of strategies that help us to get some sustainable competitive advantage. And that is what we are trying to build through our efforts. Some of the efforts we have executed, and some are under execution, that is one part. The other part also is the opportunities that are opening up with exports in the bicycle arena is also quite large. And therefore, we are looking at that in a far more concerted and aggressive fashion than what we have done in the past. We believe that will traditionally give us good growth opportunities and balance the vagaries of the domestic growth. So all in all, in a nutshell, I think you will see sustainable kind of performances in terms of trying to see how we can get up the volume. There is a lot of work in process.

Kashyap:

Just to extend that question was that if you can share qualitatively what exactly, is there a product mix change with exports, what exactly is kind of?

K K Paul:

There's lots of those initiatives; I think the first thing we did is we aligned our cost structure to the activity level, that is first, so therefore, that brought down the breakeven substantially, so that improved our competitive ability in the marketplace, so that is point number one. Point number two is, we are also now embarking on looking at how to get the manufacturing piece on make to order phenomena just as what you see in production system in other places. And that is the work that we are currently doing so that we are able to respond much faster to the marketplace. Third was that we rejigged the organization, gave large responsibilities, worked around building capabilities of people. The fourth was that we build an export structure and started focusing on different markets that we will do, build a long term plan for exports, and giving shape to that. So, these set of initiatives and now we are working around with vendors to realign the supply chain, towards this make to out of principle, because they have to get aligned at the backward end. And the fifth portion is that we are looking aggressively into the weaknesses that we historically had in our distribution system and correcting that and seeing that we are adequately represented both in depth, that means the number of dealers we have, and their participation with us, is defined and breadth is obviously very simple, the kind of coverage that we have geographically versus the universe of dealers available, so on and so forth. The other piece, which we are working on is a Track & Trail that is our retail outlet, franchisees that we have, in terms of reviving them from a service point of view, from an activity point of view and from an ROI point of view. I think these are basically the things that we have done along the way, we also looked at what our brand stands for, we are doing some



brand rationalization of bringing out a new brand purpose, engaging in the social media a lot now and building conversations around our brand, looking at eCom in a far larger way, and succeeding in that effort in terms of taking up eCom sales, and not conflicting it with the trade sales, by having different product lines. So briefly, I think this is all the work that we have done qualitatively. And some part of that is what you are seeing as a result, of course, with COVID coming in, we had a first quarter washout, but the other quarters we were held, because the demand was much better and so that also helped us to propel us to do better.

Kashyap:

While steel prices definitely a bit of a concern, but at the same time, wouldn't that be a possibility from an export standpoint, because Indian pricing is still at a discount to global pricing as far as steel is concerned? So when it comes to engineering exports, would it kind of open up the competitiveness towards the table? And will we be able to scale up exports much more than what we were thinking about earlier?

Vellayan Subbiah:

Yeah, so Kashyap, that is a good question. And I will let Mukesh Ahuja answer that. And to your last question, just to summarize, what Paul said, basically the first step that Paul's really done is kind of make the place extremely competitive, right, so we made ourselves a lot more competitive by improving on the QCD dimensions, like he talks about, and we're still going to continue to invest a lot more to kind of make ourselves even much more competitive there, like we've told you, the Japanese and lot more investment to be done there. So given that, in Cycles, where he is talked about four growth vectors, one is increasing domestic market share; second is, looking at mix, right; the third is export markets; and the fourth is new products and categories, right. So those are the four growth vectors they are looking at. And that is why I think kind of, Paul's beginning to look at a business in significantly different way that offers us kind of more avenues for growth. So that's, Kashyap, summarize a question on cycles. The second question on Engineering and Exports, I am going to ask Mukesh Ahuja to answer that.

Mukesh Ahuja:

Kashyap, your observation is right, being the commodity prices still lower than the global commodity prices, India has the edge over it which will definitely lead to the more export revenues going forward than what we have planned. But we need to also check it up whether it is sustainable, so it is more important that we do not only depend on this, our earlier work on products, specific category development is continuing so that our participation level in the different geographies and the different product segments globally can increase, leveraging our domestic experience.

Moderator:

The next question is from the Aditya Bagul from Axis Capital. Please go ahead.

Aditya Bagul:

Sir, my first question is in terms of our Engineering business and Metal Form? Just can you help us understand what are the interactions that you are having, with OEMs and tier-1 suppliers with regards to FY'22, how do they see volume growth in that segment, and as a consequence, their above effect on us, if you can just give us some high-level view or understanding of that?



Vellayan Subbiah: Aditya, thanks for the question. So I would honestly say that things are slightly kind of mixed right now. Like we said, kind of the outlook that they have is a bit unclear. People at one level are very bullish, but second level there seems to be quite a bit of apprehension in terms of what is going to happen. So honestly, I say, it is difficult right now to kind of predict what is actually going to happen domestically, because both schools seem to be prevalent at the same point in time which is why like Mukesh said on the engineering side, we have been a bit more focused on the export front. But there is enough domestic demand also to drive the business right now. And what we are also seeing in this environment is that the smaller players are having a tougher time to manage their supply chain. Basically, because you are seeing commodity prices go up, people are not sure how much inventory to hold, because they are not sure what is going happen to pricing, getting supply from the steel guys is getting kind of a challenge. So there are a whole bunch of factors that is actually making it more difficult for the smaller guys to compete. And their working capital cycles also getting locked up. And I think that is also helping us both in terms of Engineering and in terms of Metal products. But honestly, I do not think that the OEMs have kind of a crystal ball or the capability to do that at this stage in time.

Aditya Bagul: My second question is with regards to our Q4 numbers, I mean, we have been more than positively surprised with the growth that we have seen, obviously, in cycles which Kashyap highlighted, but in Engineering and Metal Form as well. So just can you help us understand if we were to decompose this, how much of this would be purely on account of the commodity costs and how much would be the inherent product volume growth?

K. Mahendra Kumar: On the passing on the commodity costs to the customers, it will take some time, there is always a lag of about three to six months and that impact has not come into Q4 numbers, so most probably it will come by with the quarter 1 or 2, not entirely but most part of it.

Vellayan Subbiah: Aditya, coming back to your question, larger portion is driven by volume, because part of what happened in Q4 is that everybody was running flat out, right. Obviously again then we had kind of the same impact of a slowdown especially in April and May. But in Q4, last year, everybody was running flat out. So that basically helped us significantly on the volume front.

Aditya Bagul: As highlighted, I think what we are going to see is the impact of commodity costs coming in Q1 and Q2?

Vellayan Subbiah: Correct.

Aditya Bagul: I understand that you do not want to discuss too much in terms of CG, but I had one data point to ask, with regards to our exceptional items, there is a divergence, we have got Rs.22-odd crores in our consolidated numbers for Tube, but when I look at CG's numbers, that number is quite high, I think it is closer to Rs.280 crores. Can you just help me understand what is the diversions in that?



Vellayan Subbiah: I say the exceptional items is Rs.22 crores in TI numbers, the standalone exceptional item is driven by the voluntary retirement scheme. You are asking for the exceptional items in CG's numbers, which are at Rs.280 crores, which has a whole variety of items in it. So I think Aditya's question is why isn't that Rs.280 crores shown up in TI's consol number?

Ramanujam Rajagopalan: We consolidated CG for four months starting December to March, hence the entire exceptional item of CG will not flow in here, because eight months gets excluded. For the four months, the exceptional item is roughly around if you take Q4 around Rs.80-odd crores. That is one of the reasons

Vellayan Subbiah: That shows up in the exceptional on the overall. Aditya, I do not know if that answers your question.

Aditya Bagul: Maybe I can take it up with Mr. Ramanujam offline after the call.

Ramanujam Rajagopalan clarified offline: To clarify the difference between the exceptional item in TI and CG consol, we clarify that as required for business combination accounting under Ind-AS 103, most of the exceptional items have been adjusted in the opening balance sheet of CG as of November 2020 to arrive at the fair value of assets and liabilities of CG taken over when we acquired the company. This adjustment is required and allowed to be done for determining the goodwill arising out of the acquisition pursuant to the fair value of the assets and liabilities and hence will not flow into TI's consol number completely.

Moderator: The next question is from the line of Ankit Merchant from Quest Investment. Please go ahead.

Ankit Merchant: Can you shed some light on the TIDC India, how is the transmission chain business doing for us, as well as if you could help us by looking at the two-wheeler and the industrial chain division?

Vellayan Subbiah: We do not report kind of performance data at the business unit level. But a broad indication, I will let Mr. K.R. Srinivasan who heads that division give you some broad guidance on how the businesses are doing. In short, both those businesses have been doing well but I let KRS kind of talk a bit more about it.

K.R. Srinivasan: As far as automotive transmission chains, we had different kinds of demand fluctuations right through the year 2021. The first quarter last year was affected by pandemic and then we had some good traction in the aftermarket demand in the remaining quarters basically driven by the consumption at the vehicle maintenance market. So that really helped us to improve in the aftermarket. And the OEMs were actually following the demand curve, the lockdown and then market opened up and then again there was lock down. So they were actually managing the pipeline inventory right through the year, that is how the productions are going up and down. So we need to dovetail on operational level for OEMs suitable to their demand which continues this year as well. Industrial chains have done pretty well. Of course, they were affected in the domestic demand initially because of pandemic and then this division came



back very strongly post-pandemic and then we did some impressive sales in our domestic demand. Even exports have done pretty well though the export markets were affected because of logistics and also other demand fluctuation issues. Overall, the division came back very strongly, and we see the traction continuing this year as well.

Ankit Merchant: Just a follow up on the automotive chain segment, would it be possible to share how much of the revenues come from two-wheeler or from the passenger vehicles or the other segment?

K. Mahendra Kumar: We do not usually share data at that granular.

Ankit Merchant: Also, if you could give the outlook on the automotive chain segment like if the EV transition takes in, then how do we plan to navigate through this EV scenario?

K.R. Srinivasan: That is a very good question. Actually, like always Mr. Vellayan says, we do not have a crystal ball to project the future. But however we are preparing ourselves to face the EV because EV will have some impact but not immediately, maybe a few years down the line, we have some impact. So we are preparing ourselves with suitable strategies within the division for facing that.

Ankit Merchant: But we would be much more focused on the aftermarket side, right?

K.R. Srinivasan: Yeah, you are right, the aftermarket would continue for many more years, though the OEMs, engine demand comes down.

Vellayan Subbiah: Aftermarket will be same for up to ten years after the demand...

Ankit Merchant: But currently, we do not have any product for the EV as such?

K.R. Srinivasan: Currently, we do not have any products for the EV.

Moderator: The next question is from the line of Shyam Sundar Sriram from Sundaram Mutual Fund. Please go ahead.

Shyam S Sriram: My first question is on the Metal Forming division. While all other divisions have done very well during the year, we feel Metal Forming division in terms of the revenue lagging little bit, obviously the year has been quite tough. If you can give some perspective within Metal Forming which sub-segment have performed in the overall division? Secondly, on the Engineering side, the unorganized segment being facing challenges, etc., both on the Engineering as well as the Metal forming, so have we gained any market share in any sub-segments per se, the reason I am asking is Engineering in Q3 to Q3 did extremely well from a revenue growth perspective on that front?



- Management:** To your first question, challenges has been on the railways front, that is where we are kind of seeing the challenge from Metal Form perspective. Railways got extremely sluggish last year; they really never came out of the whole COVID situation.
- Mukesh Ahuja:** To share with you, growth is led by almost all three verticals; one is like your observation is right, we have gained market share in the domestic market in the last year to a good margin and also maybe focus on exports as well as our large diameter plant has also led to the growth. So growth is function of all these three areas. In domestic market, yes, we have booked shares.
- Shyam S Sriram:** When you are talking about the new tube mill that was supposed to start I think in Q4, what is the status there? And overall on the non-auto hydraulic cylinder pick up, how is this happening? On the export revenue if you can share how much was F'21?
- Management:** Going one-by-one, our tube mill what was getting commissioned, maybe unfortunately because of COVID, is running by a little delay and we hope after the second wave, we are going to finish that exercise. Coming to exports, like Vellayan mentioned, we do not share the revenue breakup of domestic and exports, maybe the engineering division that is how we classify. On the large diameter side, yes, growth is coming good because of the government spend on the infrastructure and all those things, that is showing a good momentum.
- Shyam S Sriram:** What is the planning in terms of the capital expenditure in FY'22, '23 and where are we trying to spend that? In FY'21, we had around Rs.129 crores of CAPEX.
- K. Mahendra Kumar:** Shyam, this year the CAPEX could be in the range of Rs.200-250 crores, major part of that will be towards the Three-Wheeler Electric Vehicle project which we are working on plus there are a few expansion plans which we have in Chain's business and also in Engineering business.
- Moderator:** The next question is from the line of Abhishek Ghosh from DSP Mutual Fund. Please go ahead.
- Abhishek Ghosh:** I had few questions. First, cycle division, when we are looking at the export opportunity, will it be in form of B2C or B2B format or will it be a mix of both?
- Vellayan Subbiah:** Are you saying are we going to go direct and kind of try to extend to the customers with our own brand in the foreign markets? The answer is no in B2B.
- Abhishek Ghosh:** While we have seen a sharp improvement in the revenues of cycle division on a quarter-on-quarter basis up to the Rs.300 crores kind of mark, corresponding margins have not come in. But I thought since it is more of B2C business gross margin should have been stable. So how should one look at the margin profile of the Cycle business more from a medium-term perspective is it more like a 5%, 6% margin business or is it like a double-digit kind of a margin business? I am not looking at full year because 1Q was an aberration. If I look at more



like an exit number of Rs.300 crores kind of a revenue that you have done for the quarter with corresponding 5.5% margins, I am just trying to see that in a medium-term given the competitive intensity that one has seen in the domestic market, that has kind of come off because of a large player going off, the demand pull that is coming plus the export opportunity. So more from a medium-term perspective, is the Cycle business like a double-digit margin business for you all or is it more like a 7% margin, just wanted to get that aspect from a medium-term perspective?

K. Mahendra Kumar: It may not be a double-digit margin, but there may be some opportunities for further improvement.

Vellayan Subbiah: Broadly, I would say Paul and team are looking to improve margins more, but they have already improved margins significantly from what the numbers used to be.

K K Paul: Compared to last year, there is a significant improvement.

Abhishek Ghosh: Sir, the other thing is now you have this portfolio Shanthi Gears, CG Power, Tube, and there are a lot of commonalities between industrial gears, CG also does a lot of business with railways, Tube also does a lot of business with railways. So, are there teams already kind of interacting with each other, is there some kind of synergies that are happening, or you just want to consolidate CG and then probably get into those kind of initiatives, how should one look at it?

Vellayan Subbiah: This year it is more of a year of consolidation to the existing businesses. Just to give you a sense, even in CG, their interaction has predominantly been with the power train, right, with the engine side and TI's interactions have mainly been with the coach's side. They have made it totally itself separate kind of facilities so on and so forth. So, at a first stage, our focus is just consolidating the existing business and then at the second stage we will move to integration between the two businesses.

Abhishek Ghosh: Just coming to one element also, do you believe that railways would be weak in FY'22 as well because of the similar trends continue as of FY'21, so the Metal Forming division would see a drag in FY'22 because of the railways not doing well?

Management: Right through last year, the coach factories were having challenges in continuing the operations. Even now we see that because of the lockdowns in all the zones wherever the coach factories are situated both south and north. But slowly they are opening up. The allocation from the ministry need to improve, but our interactions with the railway authorities is really promising, they see that maybe the third quarter of this year things would come back to normal is what is their guess. We need to wait and watch. Maybe next quarter we will throw more light on this. But definitely, government is committed to spending more in railways both in coach and safety areas. So as far as potential in railways is concerned, on a long-term perspective, it is definitely huge.



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- Abhishek Ghosh:** In the cash flow statement, there is a small amount related to the corporate guarantee provided to the CG Power. Just to understand in terms of how much have you lent to as a corporate guarantee to CG Power and what is the policy going forward around that?
- Management:** We issued this corporate guarantees to secure the loan which we have taken to refinance the CG acquisition. So, this is a notional entry, this is not actually a cash flow entry, it will get offset elsewhere, this is a notional entry which we have to pass based on Ind-AS accounting.
- Moderator:** The next question is from the line of Anupam Gupta. Please go ahead.
- Anupam Gupta:** Sir, couple of questions. Firstly, on the Cycle business, while the period after COVID has been very strong, but do you expect the domestic market to keep growing at a healthy pace or should it revert back to the older pace which you are thinking before the COVID struck?
- Management:** I think somebody has asked this question earlier kind of what the outlook is. I think like we said, at this point in time it is very difficult to kind of say what is the outlook going to be. I think we will have to wait and see the performance. Obviously, there is a school that very demand is going to pick up, but we do not want to kind of make that assumption right now. Like both Mukesh and Paul said, there is an increasing focus on export as well. So we are hoping that will also help us because we are seeing good export demand.
- Anupam Gupta:** You said about exports. So the suppliers in China or Taiwan who are the larger suppliers, you obviously have a much better economies of scale there. So what advantage do we have versus them in terms of cost if we are primarily focusing on B2B?
- Management:** I think two sets of things, right, one is that we have seen after this pandemic there are several buyers in the US who are clearly saying that they do not want a 100% dependence on Chinese supply chain, and we see that as a definite advantage. Second is in terms of some products, like if you see even in Tubes, there is basically anti-dumping against some of the Chinese players. There have been challenges with India also, but we do see opportunity begin to pick up for us.
- Anupam Gupta:** Just one question on the Engineering segment. Firstly, you have been working on growing the exports pie for the Engineering segment as well. So how is the traction on the product mix which you are developing and any further products which are in the pipeline which can come through?
- Mukesh Ahuja:** Like we shared earlier, we do not discuss in this call which product category specifically we are focusing on. Just to give you a broader answer is we are going to increase our participation at the geography level, and we are also participating in the new product segment even for this CAPEX also under completion, so we will be taking that forward too also.
- Moderator:** The next question is from the line of Niket Shah from Motilal Oswal. Please go ahead.



- Niket Shah:** Just two, three questions. First, I think you have taken a Rs.200 crores fund raise enabling resolution. Is it largely for working capital or is there for something else? The second question was while we have done M&A of CG Power and we did guide that we will look at multiple M&As in future as well. Given the turnaround that we have seen in CG Power already, is it safe to assume that over the next 12-months we will look at another acquisition given the stressed environment that we are under?
- Management:** I will answer the second question first. Obviously, we will start looking but we are not going to kind of set ourselves time limit under which we have to do these, but we are going to be very opportunistic from that perspective. That is as far as the M&A part is concerned.
- K. Mahendra Kumar:** In terms of the Rs.200 crores, it is more like an enabling resolution, not for any specific requirement as of now.
- Niket Shah:** During the CG Power call you had a guidance of 10% PBT margin, and if you just look at the numbers on an adjusted basis, you already will cross about 12% if I add the raw material inflation which at some point of time will converge, so would you like to give a higher level guidance again on that number because it also impacts to some extent Tube valuation. So would you like to give a revised guidance on that again?
- Vellayan Subbiah:** There are mix of businesses, right, some businesses might be higher, some businesses would be lower. I would say that it is still a business that we need to learn. I do not want to give any increased guidance on that. Give us three, four quarters to learn that. After that we can start discussing.
- Moderator:** The next question is from the line of Avin Joshi from Bataleur Advisor. Please go ahead.
- Avin Joshi:** I just had a small request to make. Sir, in the last call you had mentioned that you would probably be doing a separate conference call for CG Power, now you are stating unless there is adequate coverage we will get into it. It is becoming like a chicken and egg story. Why don't we preempt the coverage by getting some more detailed discussions in these kind of calls or do start doing a separate call?
- Vellayan Subbiah:** It is not like we have to wait for coverage. We will make a call ahead fairly quickly.
- Moderator:** The next question is from the line of Bharat Sheth from Quest Investment. Please go ahead.
- Bharat Sheth:** A small question, I mean, not on CG Power, not financially point business wise, qualitatively. In CG Power, I understand we have a smaller motor business also. And with GST coming in and this COVID, there is a lot of consolidation is happening. So if you can share some color and are we working for this small motor business for EV vehicle?



- Vellayan Subbiah:** Like we said, we will start doing separate CG call. We are looking at motors for EV, but it will be early days. I am not sure what you mean by small motors. But kind of obviously there is a broad spectrum that kind of EV plays in. I will not get into the very small motors if that is your question. But our intent is to obviously kind of broaden the spectrum over time. But we do not see getting into the very small fully automated manufacturing motors.
- Bharat Seth:** So we will discuss more when we hold the CG Power call?
- Vellayan Subbiah:** Yes, thank you.
- Moderator:** The next question is from the line of Rohit Ohri from Progressive Shares. Please go ahead.
- Rohit Ohri:** Two questions related to Shanthi Gears. Just wanted some clarity on the growth CAPEX. In Q1 FY'21, the team mentioned that Shanthi was going to go for about Rs.20-odd crores of growth CAPEX. In Q3, Mahendra and his team mentioned that there would be a deferral in Q4 and then Q3 of the next year to be spread over the next four quarters. Just wanted to understand what exactly is happening on the CAPEX front for Shanthi?
- K. Mahendra Kumar:** What we intend to spend could be in the range of Rs.20 to 25 crores.
- Rohit Ohri:** That is for the growth CAPEX is it?
- K. Mahendra Kumar:** Yes, to get into new opportunities and new segments in the near future.
- Rohit Ohri:** If you wish to elaborate a bit on the new segments or is it too early to speak about that?
- K. Mahendra Kumar:** We do not want to reveal it exactly but....
- Rohit Ohri:** So, apart from these new segments, any other propellers for growth which the long-term shareholders or investors should look at for Shanthi?
- K. Mahendra Kumar:** As we explained earlier, service business continues to be a growth opportunity, there is significant potential still which is remaining untapped, we continue to focus on that.
- Rohit Ohri:** So the service business like what, 15% of the total turnover today?
- K. Mahendra Kumar:** Yes, it will be around that.
- Rohit Ohri:** And you intend to pull it up to in terms of percentage?
- K. Mahendra Kumar:** Lot of scope for potential, should be I would say maybe a double-digit growth every year.
- Moderator:** The next question is from the line of VP Rajesh from Banyan Capital. Please go ahead.



VP Rajesh: Just a couple of questions on Shanthi Gears. What is the capacity utilization in that business? Secondly, what is the growth prospect you see over the next two, three years given the government's thrust on manufacturing and infrastructure?

Vellayan Subbiah: Capacity utilization we have done at an individual product level at Shanthi, right, because some of the product's kind of go through much larger products, some of the products that kind of say heavy duty, the medium, the capacity utilization in general I would say is about 65% to 70% right now. In terms of growth prospects, I think we talked about it. The avenues we see are service revenues, new products in the existing segment itself, exports continue to kind of be an opportunity and we are also looking at now what to do from a technology perspective basically broadly beginning to see, IoT, what if we can kind of stick, some of that into the gears because that is increasingly becoming a demand from the customer side as well. So, all four tend to be kind of good growth opportunity for the business. So there are definitely significant growth opportunities. We will have to kind of wait and see how this thing kind of plays out, but we are bullish broadly on the business.

VP Rajesh: I was just trying to understand there are more participation in the domestic market because the spend the government is pushing in the infrastructure or that may not be the case, I just wanted to get...?

Vellayan Subbiah: Definitely, there are several trends that are positive, right, sugar, for example is going to be kind of positive trend if people start spending more on that business. Infrastructure picks up definitely. Any of the big areas, cement, basically ELSA, any infrastructure areas kind of help us. So, definitely if there is more of an infrastructure spend and push there, we will see growth from there.

VP Rajesh: Too early to comment on that?

Vellayan Subbiah: Yes, it will be too early. Like I said, we do not want to be kind of saying before this thing start.

Moderator: The next question is from the line of Tanuj Bangade, an individual investor. Please go ahead.

Tanuj Bangade: My question is with regards to our acquisition of CG. In total corpus of outstanding warrants that TII possesses, is there any data that we have as to how much of it has already been utilized or converted to shareholding and what is the approximate timeline as to when you guys are going to utilize or convert them into shares?

Vellayan Subbiah: We are 18 months from the date of issue. The date of issue was November 2020. So, within 18 months we will basically fully subscribe. On a full year subscribe basis, I think our total shareholding goes up in that range somewhere between 58% and 59%.

Moderator: That was the last question. I would now like to hand the conference over to Mr. Anupam Gupta.



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- Anupam Gupta:** In the Engineering product segment, we obviously have a significant exposure to two-wheelers and the electric two-wheelers where we are making slightly faster inroads than the passenger vehicles at least in India. So have we started pitching our product there or have we seen any traction there or do you see that still to be some time away?
- Vellayan Subbiah:** It is a good question. Mukesh, the question is on whether electric will affect our TFF business, so if you can just talk to that?
- Mukesh Ahuja:** Actually, it is going to be increase the growth opportunity because if we go through the segments, the scooters are taking first priority for the electrification in the two-wheeler segment and TFF 56:29 segment is going to increase by introduction of EV. So, we see the opportunity maybe let us say we do not foresee any impact on the business from the negative side as of now, yes, there are opportunities which we have to participate and grow our business.
- Anupam Gupta:** So far have we seen any traction there or is it too early?
- Mukesh Ahuja:** It is too early.
- Anupam Gupta:** Thanks a lot, sir. That all answers my question. And thanks a lot for giving us the opportunity. If you have any closing comments, Vellayan, please sir, go ahead with that.
- Vellayan Subbiah:** Thanks. Nothing specific from our perspective. Like we have said our focus continues on the three areas including kind of there is an opportunity for performance improvement, TQM and all of our efforts continue, and we do see more performance improvement opportunities just from those itself in addition to kind of some of the new areas and growth that we are looking at. So, with that, we will also close our commentary. Thank you and look forward to interacting with you next quarter.
- Moderator:** On behalf of IIFL Capital Limited, that concludes this conference. Thank you, everyone for joining us and you may now disconnect your lines.