



“Tube Investment Conference Call”

August 16, 2021



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Moderator: Ladies and gentlemen, good day and welcome to Tube Investments Q1 FY2022 Earnings Conference Call hosted by IIFL Securities 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, please signal an operator by pressing “*” and then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anupam Gupta. Thank you and over to you Sir!

Anupam Gupta: Welcome everyone for the Tube Investments first quarter of conference call. We have the entire management team for Tube Investments with us for the call including Mr. Vellayan Subbiah, Mr. Arun Murugappan, the CFO Mr. Mahendra Kumar and all the chiefs of businesses including Mr. Mahesh Ahuja, Mr. K.K. Paul, and Mr. K.R. Srinivasan. For the opening remarks I will hand it over to Mr. Vellayan Subbiah post which we can take Q&A. Over to you Sir!

Vellayan Subbiah: Thank you Anupam and good morning everybody. Just to go through, the board met on August 13, 2021. Just quickly to take you through the standalone results for the quarter and then we can talk about individual businesses.

The revenue for the first quarter was at 1257 Crores. There is no point in actually comparing with the same quarter last year because of COVID, even this time we got hit by COVID and it did affect us significantly in April and May so which is why the numbers are obviously kind of a bit lower than what we would have expected them to be.

PBT before exceptional items was at 130 Crores. The annualized ROIC was at 41%, and free cash flow actually for the quarter was negative at 134 Crores, basically because inventory levels went up significantly due to unexpected lockdown conditions in May and the creditors had to be paid for the agreed terms. NWC should improve this quarter.

In terms of reportable segments, in line with Ind-AS 108 we operating segments are.

Engineering segments comprises of cold rolled steel strips and precision steel tubes, CDW and ERW both. The revenue was at 815 for the quarter and PBIT was at 83 Crores.

Metal Formed Products compromises automotive chain, fine-blanking, stamped products, rolled form car door frames and cold rolled formed sections for railways and passenger coaches. Revenue here was 245 Crores and PBIT was 26 Crores.

Mobility which is standard bicycles, special bicycles including alloyed bikes, fitness equipment, and the three wheeler electrical vehicle when we start making that. That division had revenue of 172 Crores and PBIT was at 7 Crores.



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The Others segment comprises of industrial chains and the new businesses where the revenue was at 88 Crores and the PBIT was at 10 Crores. In terms of consolidated results, which obviously include both Shanti Gears and CG Power now. Revenue was 2437 Crores and PBT (before taxation) was 185 Crores. CG where we have a 53% stake has consolidated revenue of 1050 and PBT for the quarter was at 75 Crores. Shanti Gears, we had revenue of 67 and PBT for the quarter was at 12 Crores.

Commenting on the financial results Mr. M.A.M Arunachalam, Chairman TII said TII has delivered healthy performance for the quarter despite partial disruptions in the operations in some of the businesses of the company due to the impact of second wave of the COVID pandemic.

The company witnessed good demand in the engineering and metal form products business. The signs of exports are encouraging with opening of overseas markets. With revival of the operations we expect momentum to pickup in coming months. That is a quick take on numbers for the quarter and results.

We would be happy to turn it over to Anupam to the audience for questions and we got the whole team here like you said. Thank you.

Moderator: First question is from the line of Abhishek Ghosh from DSP Mutual Fund. Please go ahead.

Abhishek Ghosh: Thank you so much for the opportunity. I just wanted to understand in terms of this quarter how many days we had the impact of shutdown because of the lockdown because of the southern states

Vellayan Subbiah: Actually this time lot of the companies were better prepared for lockdown than last year but if you see what was happening I would say in some cases like anywhere between like 20 and 40 days is what the total loss was.

Abhishek Ghosh: Where I was coming from Sir is that despite that if I look at the engineering division kind of revenues on a two year CAGR basis and not on Y-O-Y because it is not comparable, you have still done a very good job, you still grown it about 10%-11% CAGR on a 3-year basis also there is a strong growth while predominately your key sector which is auto is still not back to those levels, so is it because of inflation, is it because of market share gains, exports, new product if you can just help us understand that aspect?

Vellayan Subbiah: I would like Mukesh talk more, definitely kind of exports has been the biggest focus area and biggest growth area in the first quarter, a lot of the loss in demand from auto has been pushed towards export though there was also good demand from auto but that is the quick take but I let kind of Mukesh talk as well.



- Mukesh Ahuja:** Thank you Sir. Like you rightly explained, the growth in the engineering division is coming in at a mixture of exports which we are participating and working on it almost now from last 3 to 5 years' time which has started giving the results. Exports is a key growth driver and which will remain the driver going for growth and in the domestic market also we have gained shares in this COVID period and third is little bit part what you rightly mentioned is coming out of the inflation even the inflation is yet to get factored fully in the revenues, but small portion got it even in Q1. It is a mixture of all three but predominantly it is coming from exports and the gaining market share.
- Abhishek Ghosh:** What would be exports as a part of revenues today of engineering division?
- Mahendra Kumar:** This quarter it is high. It is close to 18%.
- Abhishek Ghosh:** Just one more question from my side. If you see gross margins in last two quarters obviously has seen some moderation because of the inflation and you would have to kind of negotiate with the customers and pass it on. So where do you see that path of that gross margins coming back and how should we kind of look at it if you can just help us understand with that?
- Mahendra Kumar:** Like I mentioned in the earlier calls it may not be appropriate to see gross margins quarter by quarter because there will be some timing difference between the steel price increases and timing of recoveries so we should rather see it on a long term basis maybe on annual basis.
- Vellayan Subbiah:** One way to look at it, if commodity prices stick with where they are now right then the current levels will be more indicative. Obviously, we will work on improvements to kind of basically push that number further, but that would be kind of broad thing. If steel prices stick, otherwise a denominator effect on that was huge, the fact that prices went up so much so I just think it is driven by that but obviously we are working more to kind of work on the efficiency side and all that a lot more but that aside the current levels are indicative but in macro half of this.
- Abhishek Ghosh:** Very helpful. Thank you so much and just one last question from the annual report the flavor of the report was that there was lot of focus which you have been mentioning, lot of focus on export, Russia, US, Europe you seem to added lot of customers plus the IRIS certification for railway opportunity, will you have to incur lot of capex now, seed those markets and the certification you got to be able to grow those markets, if you can just help us with that and how big are those opportunities? Thanks.
- Vellayan Subbiah:** I do not think that there is significant capex. For example, if you see what the engineering folks did on the stabilizer bar in the tube mill, hopefully we will commission in this quarter so that is capex that has been incurred and will allow us to kind of significantly improve our export capability on that side, even mobility for example is beginning to look at exports in a pretty big way and it does not require a huge capex but there are some smaller capexes there. So I do not think it is capex intensive because



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there a lot of capacity is there, it is more kind of enhancing that capacity for certain kind of products, so at this stage it is not requiring kind of totally new Greenfield production facilities to drive that but definitely that focus is there for us and will continue over the next couple of years.

Abhishek Ghosh: Thank you so much and wish you all the best.

Moderator: The next question is from the line of Suraj Nawandhar from Sampada Investments. Please go ahead.

Suraj Nawandhar: Good morning Sir. My question was more of related to the CG Power. How are we seeing demand on the ground after the second wave of COVID?

Vellayan Subbiah: Again, broadly like we have indicated before we do not want too many CG Power questions here. We have already said that after the October timeframe CG Power will start having its own investor call but to answer your question there has been tremendous demand in all of the businesses, so there has been good demand growth whether it motors business, switchgear and transformers. I think switchgear and transformers the demand for CG is driven both by supply and demand issues because other supply has gotten reduced and the railway business as well, so all the businesses are seeing good demand.

Suraj Nawandhar: Thank you very much Sir.

Moderator: Our next question is from the line of Niket Shah from Motilal Oswal AMC. Please go ahead.

Niket Shah: Thanks for the opportunity and congratulations on good set of numbers. Sir first question was if you can just give us some sense when do you think your optic lens business will go live. I think in the annual report it is already highlighted the plant is up and ready so when can we see the plant going live and what kind of revenue should one really think of in the next two years?

Vellayan Subbiah: The lens facility is live now. There is only one production process that is still kind of being piloted, all the other processes are live but like we told you this was kind of more of like a pilot project so the revenue from this is fairly small because here the capacity is only half a million lenses a month, which will only get us to 6 million lenses a year that is fairly small. Now what we are doing is readying the plant for expansion which is what will give us kind of more capacity that plan is getting worked on now. So I think at the current levels it will not have a significant impact on revenue or numbers. This is more to prove out that we can in fact make these lenses in India which we are getting more confidence at this moment.

Niket Shah: I understood Sir. The second question was again if I were to look at your annual report you have highlighted that a lot of new applications within the engineering business on the drive line, ride control, suspension application, also with the metal form business we have launched engine oil, so if



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you can just help us understand that obviously these might be very, very smaller in terms of revenues but what is the contribution today coming from these new product launches and what is the thought process here within each of these segments?

Vellayan Subbiah:

See like we said before what we are seeing and what you have to see at an aggregate level again if we take it back to TI1, TI2, TI3 what you are talking about is the new areas that are getting introduced by TI1 itself. So for example in TI1 if engineering decides to get into stabilizer bar or if the auto chain distribution guys decide to get into engine oil that is the call the individual business unit is taking. Why are the business units taking that call because they are basically seeing what can they do to improve their revenue growth rates to get to their target. Actually if you see the encouraging sign there is if you take a business like auto chain because of the shift to aftermarket kits and through some of this new products that business has seen significant growth and it has seen both revenue growth and margin growth and it has grown I would say almost 0% to close to 10% in terms of both revenue and margin . I think that is where this is encouraging. Those numbers do not show up in any kind of aggregated fashion. I mean in a sense those numbers show up in the individual BU counts so nowhere does the count shown separately and what happen with that new initiative. The stabilizer bar is not pulled out separately and not the BU count, so that is how we view those and it is absolutely fair that each of them think as their own individual organic growth kind of a thing, those are the things that we either monitor at an aggregated level how much they add for the overall company.

Niket Shah:

One final question on the EV three wheeler venture that we have planned so where are we in terms of our capacity and when do we see the plant going live?

Vellayan Subbiah:

Why do not I let Paul who is on the call answer that?

K.K. Paul:

Good morning all of you, Paul here. I think we are working around that and in the first quarter of next year, we should see the launch of the product. COVID has put us behind a month or two but we are working around that and hopefully by the first quarter of next year we should be in a position to launch the product.

Niket Shah:

So would it be possible for you to quantify the capacity or something?

K.K. Paul:

See capacity we are looking at short and long. So we are building up that capacity but to answer your question we need a plan that we have made. Capacity should not be an issue that is the way that we have planned the capacity on the first phase.

Niket Shah:

Sir just one more clarification on the engineering part of the business. There was this antidumping duty in US which you had represented so is that clarity that now it is completely off and now we can do export to US without any CBT or ADD.



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- Vellayan Subbiah:** It is almost clarified and we have got a favorable verdict on that so that is why we are going to see some kind of significant growth in US exports going forward.
- Niket Shah:** That is very helpful. Thank you so much and best of luck.
- Moderator:** The next question is from the line of Vimal Gohil from Union AMC. Please go ahead.
- Vimal Gohil:** Thank you for the opportunity and congratulations on very good set of numbers. My question was on the optic lens business. I just wanted one clarity, so basically when you say the lenses which industries are we catering to. What does the end user base look like over there?
- Vellayan Subbiah:** This is predominantly for the automotive industry so they go into automotive cameras.
- Vimal Gohil:** What is the market size like, overall market size would you be able to sort of highlight that?
- Vellayan Subbiah:** KRS do you have an answer for that?
- K.R. Srinivasan:** The ADAS space is quite expanding and progressing. It is actually a huge market globally for this venture though it has not significantly increased in India. What we are targeting is the exports market particularly in Korea and Japan, but what we have capped is really a pilot project maybe in the quarters to come we need to invest in expansion and then look at the bigger numbers.
- Vimal Gohil:** If I may try my luck if you can give us some quantification on how much money are we looking to invest in this venture would that be possible?
- K.R. Srinivasan:** Not determined yet.
- Vimal Gohil:** Sir my second question was I missed out on your clarification on gross margins, so we were a tad above 40, 41, 42 in our peak, so I guess you gave some clarification there but my question was do we sort of post assuming that commodity cycles will sort or normalize or reverse, do we expect Tube to get back to those 40, 41 plus levels going forward?
- K.R. Srinivasan:** Hopefully, slight improvement from where we are right now. That is what Mr. Vellayan was explaining.
- Vimal Gohil:** What I was asking is do we get back to our historical levels assuming that commodity sort of pressures ease, and you also said that if I am not mistaken you said the working capital was slightly high this quarter and should normalize going forward?
- K.R. Srinivasan:** Correct. We are already in Q2, but in Q2 we should see improvement.



- Vimal Gohil:** That is great to hear. Thank you so much Sir and all the very best.
- Moderator:** Thank you. Our next question is from the line of Anupam Gupta. Please go ahead.
- Anupam Gupta:** Morning Sir, a few questions on each of the segments. Firstly, on the metal form products have you seen any improvement on the railway side yet or is still very, very muted?
- K.R. Srinivasan:** See railway predominantly we supply to the coach factories, so coach factories because there was lockdown first quarter was affected we did not increase the production, we are going slowly. Second quarter looks better and we hope that things would streamline by third quarter.
- Anupam Gupta:** Just continuing on that question do we have parcel for raw materials for railway coach as well the sections which we supply there for the raw materials. What I was asking is for the railway supplies also do we have pass through for the raw materials where we have seen price increases?
- K.R. Srinivasan:** There is no raw material availability concerns, but price increase concerns are there for raw materials of railway also because predominantly we use stainless steel for railways so there is a concern on price increases but otherwise most of the orders are covered by price variation clauses, so there may not be big concern in recovery of raw material price.
- Anupam Gupta:** The second question is related to the engineering product segment in the annual report and in the call starting you said that you have seen some market share gains so which product areas have this market share gains happened and if you can just give some color there?
- Mukesh Ahuja:** Like we shared in the earlier call we generally do not discuss on the market share segmentation part but if you see predominantly we may be present in the auto sector and in particularly in auto sector, it is a combination of your two-wheeler, CV and PV across the segments we have seen there is a gain in shares.
- Anupam Gupta:** Just continuing that Sir, I think the near term outlook at least for auto domestically specifically two wheeler is not very, very great given my inventory levels which are there so how do you see in terms of let us say next few quarters for the engineering product segment going to the two wheeler side?
- K.R. Srinivasan:** Let us see, if it is anybody's guess but the festival season is nearing it out and the projections being given is surely we are going to do much better than as compared to Q1.
- Anupam Gupta:** Just one last question on the cycles business, so this quarter obviously there was some slowdown versus fourth quarter and I think there was some impact of the lockdowns but as of now what do you see where the growth should remain elevated for let us say for the near term and then normalize or how are you looking at the cycles?



K.K. Paul: I think in the first quarter as you rightly pointed out, we had issues of lockdown and closure of the market and that is reflected in our revenues that we had in the first quarter but moving forward the plans that we have made for Q2 and Q3 should be at least better than Q1 based on the markets opening up and situation remaining very stable because as we move forward we have various trends of moving, stage 3 of COVID and therefore we do not really know about the market opening and different closes but the internal plans that we have drawn up is to look at how we can gain shares even if the market remains flat and what are the various steps that we have to do to product intervention through market intervention through distribution intervention through digital interventions and so on and so forth, so we could upbeat about the next two quarters in terms of moving forward for ourselves while the market may not overall show a very big pick up based on the demand that we are currently seeing.

Anupam Gupta: Just one question continuing in the annual report you mentioned that export share within cycles is close to more than 11% in FY2021 over the medium terms let us say how high are you targeting this to go and apart from the China plus one factor in terms of sourcing what else will drive that gain in export share overall?

K.K. Paul: I think there are two, three factors that will drive one is building our internal capability with compete in different markets of export which we are doing that is point number one. Point number two is we will drive these exports further up based on what we do and how the customers respond. We should be enhancing our exports in the overall pie that is what I can tell you at the moment. Lot of plans are being made in terms of digitization of product is happening, a lot more foray into we ourselves getting into some of these indicatives so that we can manage the supply chain portion of the business and with that I think we hopefully will give a much better account of ourselves as we move forward on the exports.

Anupam Gupta: Sounds good. I am done for the time being. Thank you.

Moderator: Thank you. The next question is from the line of Kashyap from Theleme Partners. Please go ahead.

Kashyap: Good morning to everyone at TI. Just one question Mr. Vellayan, slightly high level in terms of thought process. How do you see the trajectory of businesses under TII over 3 to 5 years timeframe? We have discussed the trajectory earlier. Do you think that incrementally going forward you see the trajectory going upwards or do you think we would be at the same point where we need to originally think about that?

K.R. Srinivasan: Kashyap, thanks for the question. I think if you ask right now, see right now the world seems to be in a very optimistic mood as far as we can tell. If you see what is happening in our engineering kind of has a new kind of very promising product line and has seen very good demand from the exports



which we see can be sustained due to both China Plus One and global steel price levels but also the fact that there is new product capability so for different markets there is different kind of approaches that the engineering team is taking so that itself can lead to good growth numbers in that business. The metal formed product business like we said the individual areas are looking in new avenues for growth and then in mobility again there appears to be a lot of export led growth, opportunity for that business that is what Paul was just alluding to earlier that question, if we look at those three things combined then naturally what you would hope for is that the TII revenue growth number would actually be higher than what we thought, what they were historically going to be so that is our current take on the business and that is our current thesis so that is where we are.

Kashyap: I thought about it similarly hence I thought to ask that question. That is all from my side. Wish you guys all the best and look forward to meeting you soon.

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

Shyam Sundar Sriram: Good morning. This is Shyam from Sundaram Mutual. I got a couple of questions here. What will be the average utilization in engineering and metal forming in this quarter Q1 as compared to Q4? We are just trying to understand how are we placed from utilization perspective in Q1?

K.R. Srinivasan: Let me answer that. Shyam the worst would affect because of the lockdown but notwithstanding that the OEMs have really shown some promise both two-wheeler and four-wheeler in terms of pushing up their numbers. I would say we utilized to about 75%-80% of our capacities in the later part of the quarter. We still have a 20% room in terms to improve the utilization before any need for fresh capex per se.

Shyam Sundar Sriram: That is a fair assumption here?

K.R. Srinivasan: You are right. We have capacities to take care of the increase in demand in the coming quarters.

Shyam Sundar Sriram: Here what will be the peak utilization we can reach in the engineering segment and any ballpark numbers you can share, can we go to 90%, 95% or is 90% sort of peak utilization numbers we can garner?

Mukesh Ahuja: Shyam regarding engineering business we have a good advantage because over a period of time we have created plants in all the regions like north, west, and in south as well as Tiruttani and let us say part of strategy three years back what we shared in the investor call we are trying to build common capabilities across the plant that gives us a good a headroom may be let us say some times north will not be doing well, the west will be doing well, so interchangeability of the plant is really becoming handy for us to cater to the different market needs and barring let us say whatever the 10-20 days we lost in month of May apart from that we are operating a ballpark number around 85% and we also



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have a fairly robust process. We look forward for next two years and we take the action particularly in advance how the market projections are there. We have a sheer robust process on that and we take appropriate call on capacity expansion wherever it is required pretty much in advance at any point of time to cater to even fluctuation in the demand by 20% plus or minus we all are geared to handle that.

Shyam Sundar Sriram: Just a follow up on that so we have indicated a capex of close to 250 odd Crores for this fiscal year of which you had said a bulk of this maybe around 200 Crores maybe towards the three wheeler electric vehicles, any change in terms of the capex numbers for this year? Any perspective that you can share other than the EV three-wheeler division anywhere else we want to spend more capex per se?

Mahendra Kumar: The total level it will be around that only 250 Crores only. In addition to the EV project, we will also be spending some amount to expand capacities in tubes and also in auto chain.

Shyam Sundar Sriram: Sir just a last question metal forming from a margin perspective has held up, EBIT margins have held up a little well, despite the drop in volumes per se is that due to the mix within the division railways going down or is there any initiatives that we have taken that has contributed to this margins being slightly resilient than what one would have expected per se in metal forming?

Vellayan Subbiah: One is of course the action which you are taking for margin improvement have started yielding results but the second thing is there are also certain price recoveries for inflation during Q1.

Shyam Sundar Sriram: Sir other segments industrial chains because that segment seems to have improved sequentially so the chains have contributed to this or that lens pilot project has started playing out and so there is a sequential improvement in the other segment revenues?

Vellayan Subbiah: It is mainly because the industrial chains is now grouped under others. We have taken it out of metal form products and grouped it under others along with the new business. It is mainly about industrial chains.

Moderator: Thank you very much. The next question is from the line of Sundar from Spark Capital. Please go ahead.

Sundar: Thanks for the opportunity. My first question is with regards to a couple of resolutions that were passed in the week, Friday around the AGM. One is to do with the investment of about 2 Crores into Watsun Infrabuild and the other was 25 Crores into innovative research. So, first to start with the 25 Crores of innovative research, what does this pertain to? Is it out of the normal business course, so what are we looking here Sir?

Vellayan Subbiah: Sundar thanks. Broadly, like we had articulated, this will be for TI2 investments. TI2 the approach we have taken we said that this would be more like VC style investment and what we have been



looking at is kind of several different platforms that we think can be growth platforms for TI in the future amongst those kinds of we are studying and we are working to study I would say four platforms that we see as interesting and one of those is this whole area of kind of environment and sustainability. So, the idea of the 25 Crores is that we would make smaller bets in companies and take a percentage of an existing company with the intent of then being involved with that company's growth where we can bring some value to the table, but also help the entrepreneurs basically drive their business. These are of course riskier bets. It is more like VCs like sell pay offs versus having kind of a very fixed kind of pay off schedule, but the intent is that we use this from TI's perspective to get into some of these areas in which we do not have capability sets right now. It is clearly developing capabilities sets in an organic fashion, would be more difficult.

Sundar: Vellayan, would you be able to further elaborate on what are those four platforms we would be looking beyond environment and sustainability the other three if you can?

Vellayan Subbiah: It is basically medical devices and optics and electronics. Those are the areas that we have looked at kind of initially. That does not mean those are the only four we will explore.

Sundar: I presume, you will be spearheading this project?

Vellayan Subbiah: Sorry.

Sundar: You would be heading this project?

Vellayan Subbiah: No. I am not heading anything. I do not do any work over here. What we do is kind of different people get involved, like I said, in one situation, we are using our consulting firm to help us, but different people get involved and then usually the division head will take ownership of the projects fairly early.

Sundar: Vellayan, the second question out here was that I know, we are not getting into CG Power, you do not want to answer much of it, but from the time you took over in the last December to now, there were three parameters to be drawn, one is in terms of revenue, the two, in terms of supplier relationships, three, in terms of the net liability. How have we progressed and why do you think we should look at it going forward?

Vellayan Subbiah: Like I said, let us not get too much into this. You can see where it is tracking in terms of the overall numbers and obviously there is a lot of disclosures. So we actually just kind of all the disclosures both that was there in the annual report, at the TI consolidated level, but also now even in our quarterly statements there are a lot of disclosures that if you just read, you will get a sense of how each of the situations is evolving along those three lines. The revenue side, you can definitely see the traction basically in terms of the quarterly numbers itself. I think, most of the data is out there, rather than



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kind of get into it on this call, it is better when we start doing the quarterly calls there post the October quarter that will be a better time to do it.

Sundar: Thank you. Thanks for your time.

Moderator: Thank you. The next question is a followup question from the line of Vimal Gohil from Union AMC. Please go ahead.

Vimal Gohil: Thank you so much Sir for the followup. Sir, just wanted to get your sense on out of our total product basket specifically for automotives, how much of it would be sort of engine agnostic and how much of it will be sort of directly dependent on ICE which will get impacted especially in electric two-wheelers post the proliferation of electric two-wheelers going forward?

Vellayan Subbiah: At the total level it is not going to be a significant shift for us. There are certain businesses which will be impacted more. For instance, if you see the auto chain segment, we have drive chains and cam chains. Cam chains will have some kind of impact, because of EVs. Drive chains are expected to continue. Similarly in engineering business also there maybe some minor impact, but at the total level, it is not going to be significant.

Vimal Gohil: Right and chains, that you have mentioned, the cam chains those are not a very big portion of your total overall automotive chain portfolio. Would that understanding be right?

Vellayan Subbiah: Yes, not very significant. In any case, aftermarket will continue for much longer.

Vimal Gohil: Thank you so much.

Moderator: Thank you. The next question is a followup question from the line of Abhishek Ghosh from DSP Mutual Fund. Please go ahead.

Abhishek Ghosh: Thanks for the opportunity again. Sir, if we go through the annual report again we see a lot of newer segments like metro rail as a new opportunity, seating solutions, new products like the safety critical products, the cranes and the hoist all these things, which are part of TI-I itself, so you think all these newer products, newer opportunities which gets added in TI from the last cycle of FY2019 is it fair to assume that you have added a new opportunity size of another billion dollar over the newer products and how should one look at the overall opportunity size that has got added into TI-I because of these new products?

Vellayan Subbiah: Slightly difficult numbers to estimate. Basically the things like stabilizer bars for example, it is a significant opportunity, we look at it, globally and as we go segment by segment, there are definitely things that kind of are significant if we look at the opportunities globally including the kind of cycles



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now that Paul is making and kind of beginning to export, but I do not think, we have either gone through the exercise, so I guess the quick answer this is I do not know much. All I am saying is it does push the growth rate of those businesses from that organic levels that we thought will be 5%, 7% to 10% we can push it from there. But the quick answer to your question is I do not know.

Abhishek Ghosh: The other question is also now in the two-wheeler space, at least the expected shift to EVs is much faster there, so how are you kind of engaging with probably the newer OEMs and the product for the same, any thoughts around that if you can share?

Vellayan Subbiah: It is still early days. We are exploring it. There are two schools out there that you know kind of now everything if new OEMs have said that it is going to accelerate then everybody is reading the newspaper and saying that all the ICE two-wheelers to be gone, interesting. I do not know. With this level of subsidies overtime, and the bigger question is this which is some of the newer OEMs seem to be losing money here. So, broadly we do not know, I mean, this is what we are kind of hearing in terms of what we hear from guys who are suppliers, competitors. Now if that is the case, we need to see, which is we do not want to get into an industry that has a very big revenue pool and no profit pool. So, we need to figure out and that is what we are exploring, Paul and his team are exploring it actively, but we are basically exploring whether, because for us the revenue pool only makes sense, if it comes with a good profit pool. Otherwise, you know we are not going to get VC funded in raise a billion dollars to kind of fund something like this. So, we need to explore that. If we get to a solution where we think that there is a profit pool then we will jump into.

Abhishek Ghosh: Sir, one last question from my side, in the earlier articulation, you obviously had a PBT margin target of that 10% and which you were kind of comfortably consistently doing much above that even with the negative operating leverage, so how are you thinking about it now? Is there a change and obviously with this newer product addition the growths will be much better. So, how should one look at it, any thoughts there?

Vellayan Subbiah: Correct, we should increase this. I am saying, we should increase it to 14% in three years.

Abhishek Ghosh: That is very helpful. Wish you all the best for that journey. Thank you so much.

Moderator: Thank you. The next question is from the line of Janakiraman from Franklin Templeton. Please go ahead.

Janakiraman: Thanks. Good morning Vellayan and team. One question on the cycle exports you have been saying that the half handicap versus the Chinese and the Taiwanese exporters is what is spoiling you bad, now what is the reason for this cost position? Is it the labor cost, productivity or something else, how do you propose to overcome this?



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K.K. Paul:

The only way we can explain this is that over the past few years, we have done a significant amount of import substitution. We devoted during the pandemic, etc., but we said, we have to make our supply chain much more robust and the dependence has to get reduced. So we started a lot of indigenization of the imports that we do and I am happy to say that we have substantially improved that score in terms of it. Today if we are looking at a normal front, what we import, are the derailleur first of the things, bulk of that we have been able to indigenize. That is point one. Point two, it also talks about premiumization of the products in terms of aluminum, etc., which we are on that journey in terms of moving forward. We put our own capacity as I was stating earlier, hence we will be dealing with that internally in the phase I as we proceed in the venture for exports. Third is that we also have a plant in Sri Lanka actually which we are leveraging much more towards exports, in terms of getting to different countries. Well these are part of the business, actually. Different domestic demand and the export demand. That is third. Fourth is that a very important to quantum of capability window which we are now doing, through the practice of lean that is number one, and number two is also taking on some domestic products with export line quality, so that we get used to manufacturing these kinds of bikes, in a very large fashion. As far as capacity is concerned, between the two plants, we have capacities, we have to build from end capability and capacity which we are at the currently normal on that journey so all this put together on a phased wise way as we are working and this augurs us well, to be able to give the necessary thrust in a continuous manner in export. I hope I have answered your question?

Janakiraman:

When do you reach cost parity with the Chinese and Taiwanese?

K.K. Paul:

The first priority is in different manner, depends on which markets are you looking at and which products are you looking at. You know what we are looking at is if we look at products that allow us a substantial amount on margin where we are not getting boxed between Taiwan and China, much more from China, you must bear in mind that there are a lot of anti-dumping duties on China in different markets, so would that allow us an opportunity as a new entrant in terms of looking inroads, in those markets. There is also an additional opportunity that is coping up in the China plus one strategy that Mr. Vellayan talked about earlier, so therefore people are looking at broad base and supply base in terms of this and India is the second largest market of bicycles after China, so that also gives opportunities to us and all cycle manufacturers in India in terms of the way that they have planned and the way that the sugar intent is getting after the export market. There is also a lot of talk going on between the government and the industry now in terms of looking at how to build this component capabilities in India which scale, and so therefore a lot of discussions that are going on with people who are not currently in bicycle business but in automotive business etc., to manufacture some of these components and some of the global leaders in some of the components be enlightened to manufacture, to setup a manufacturing base in India with government help and all. So, there is a lot of ring-fence from the government's end to look at this sector in terms of giving it a thrust for exports. So premium bikes for exports let us see. The other opportunity that has come through is this e-bikes



that is bicycles that are electrified in some sense. So we just launched our first product in the domestic market, just a day back, we have to watch for that response and then we are working around different markets to make a big thrust in e-bikes.

Janakiraman: Thanks. Mr. Vellayan one question for you, I heard your description of the electric two-wheeler markets in terms of profits, do you think the electric three-wheeler market will be a bit different from a reasonably attractive value?

Vellayan Subbiah: Yes that is definitely our belief and even on the two-wheeler market, all I said is we are studying it, but definitely we do think the three wheeler is going to be better, but even the two-wheeler we are still studying it at this stage.

Janakiraman: Where exactly your three-wheeler product development, is it respects, designs, prototypes, are the frozen?

Vellayan Subbiah: That obviously we will not share too much now. We will just have to wait till the product kind of gets out, which like Paul gave you the timeline earlier, we will just have to wait for that.

Janakiraman: Thank you. All the best.

Moderator: Thank you. The next question is from the line of Rohit Ohri from Progressive Shares. Please go ahead.

Rohit Ohri: Few questions related to the Shanti Gears. The pending order book of Shanti Gears has been swelling up, which is around 42% on the upside at around 235 Crores odd or so. Can you help us understand at what percentage of the order book is for manufacturing and what percentage is for the services business?

Mahenda Kumar: That will predominantly be manufacturing, but I will try and get you that split, but a large chunk of it will be manufacturing.

Rohit Ohri: If I were to break the order book into short, medium and long cycles, short being less than six months, medium being six to 12 and long being more than 12 what would be the breakup if you can help us with that, if you can share the ratios for that?

Mahendra Kumar: We generally do not give that kind of breakup to the external world, but in terms of filling the lines it has not been an issue at all. We are reasonably covered in terms of sales for the near term?

Rohit Ohri: By the end of FY2022 will we be able to clear this pending order book that you have?



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- Mahendra Kumar:** There will be ins and outs, but gradually yes we will come pretty close to that.
- Rohit Ohri:** On the margin front, I know you do not like to give guidance, but will you try to reach the pre-pandemic levels if I can be lucky over there?
- Vellayan Subbiah:** Ideally yes, why not.
- Rohit Ohri:** This order book if we try to understand that the synergies that might come and if the management thinks that you will be able to blend in the synergies between Tube, Shanti and CG Power do you think that the pending order book can swell by another 30%, 40%-odd?
- Vellayan Subbiah:** That is difficult to put a number to it, but they are under discussion. They are being explored once we have some good clarity on that we will give you those details.
- Rohit Ohri:** Sir, any new products or product launches in pipeline which you would like to share for Shanti Gears?
- Vellayan Subbiah:** I think they are doing their segmental views as they have talked about, and they continue to look at this but some of the areas it is similar to what we have talked about in the past, in terms of the areas of growth.
- K.K. Paul:** We will continue to look at new industry segments, but not be so different in terms of new products.
- Rohit Ohri:** Sir, if I were to ask one more, in terms of the raw material prices and their fluctuations, how does it happen with Shanti, means, like the revision of prices how does it take on quarterly basis or half-yearly or one yearly contract basis?
- Vellayan Subbiah:** Normally, the way it happens is when the quote is submitted, reasonable factor towards inflation is already baked in and on top of that wherever possible the price variation clause will also help, but maybe a certain percentage wherein it may not be possible to do so, that is what will absorb through our efficiencies.
- Rohit Ohri:** In recent times, were you able to take any price hikes?
- Vellayan Subbiah:** This is a custom built gears business, so it varies from order to order. So there is no general norm which is applicable here. It depends upon case to case.
- Rohit Ohri:** Thank you for the answers. Thank you.
- Moderator:** Thank you. Ladies and gentlemen that would be our last question for today. I now hand the conference over to Mr. Anupam Gupta for closing comments.



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- Anupam Gupta:** Thanks. Vellayan, if I am allowed, just wanted to ask one small question. On your TI-2 you have invested in quite a few already and you are willing to put up more in a few start ups. So, in the medium to long-term how big do you see this compared to TI-1 and TI-3 or would it be let us say small at least for the foreseeable future in the overall contribution sort of way?
- Vellayan Subbiah:** We have always said that it is not going to have any significant affect on the short-term result. It is more built in platform sort of medium and long-term. So, I will say that we have to start thinking at least five years plus when you start thinking about TI-2. Only at that point will the numbers start getting material in any way, but if you just think about this as seeding the next set of businesses that can be business and business for TI industry itself. It is not a near term or short-term thing.
- Anupam Gupta:** That sounds reasonable. Thanks a lot. I will hand it back to you for any closing comments that you might have.
- Vellayan Subbiah:** I think that is very good. Thank you. We continue to be encouraged overall by the environment and thanks everybody for joining and look forward to catching up with you again next quarter. Thank you.
- Anupam Gupta:** Thanks a lot.
- Moderator:** Thank you. Ladies and gentlemen on behalf of IIFL Securities Limited that concludes today's call. Thank you for joining us. You may now disconnect your lines.