



**“Tube Investments of India Limited Q2 FY 2021
Earnings Conference Call”**

October 28, 2021



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MODERATOR: **MR. URVIL BHATT - IIFL SECURITIES**



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Moderator: Ladies and gentlemen, good day and welcome to Tube Investments Q2 FY22 Earnings Conference Call hosted by IIFL Securities Limited. As a reminder, all participant lines will be in 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 “*” and “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Urvil Bhatt from IIFL Securities, thank you and over to you, sir.

Urvil Bhatt: Thanks Aman. Good morning and welcome to everyone for the Tube Investments Q2 FY22 results conference call, we have the entire management team of Tube Investments with us for this call, including Mr. Vellayan Subbiah, Mr. Arun Murugappan, Mr. Mahendra Kumar and all the chiefs of businesses, including Mr. Mukesh Ahuja, Mr. K.K. Paul and Mr. K.R. Srinivasan.

For the opening remarks I will now hand it over to Mr. Vellayan post which we can take the Q&A session, over to you Sir.

Vellayan Subbiah: Thank you and good morning everybody. So just a quick summary on the quarter that just got done. Standalone Q2 PBT before exceptional items for TI was at Rs. 164 crores. Revenue was at Rs. 1,667 crores compared with Rs. 1,087 crores of the same period in the previous year. ROIC annualized was at 48% for the quarter compared with 43% in the same period previous year and free cash flow for the quarter was Rs. 147 crores, due to improved networking capital level from the first quarter. The Engineering business revenue for the quarter was at Rs. 1,027 crores compared with Rs. 565 crores in the corresponding quarter of the previous year. PBIT was Rs. 102 crores against Rs. 84 crores. Metal Formed revenue was Rs. 328 crores compared to Rs. 285 crores in the corresponding quarter of the previous year. PBIT was Rs. 39 crores versus Rs. 33 crores in the corresponding quarter and Mobility had Rs. 262 crores in revenue and that was compared with Rs. 212 crores in the corresponding quarter and PBIT was Rs. 20 crores compared to Rs. 18 crores in same quarter previous year.

For our Other business revenue was Rs. 119 crores compared to Rs. 68 crores in the corresponding quarter previous year, and PBIT was at Rs. 12 crores compared to Rs. 6 crores. Consol revenue for the quarter was Rs. 3,262 crores as against Rs. 1,193 crores in the corresponding quarter of the previous year. This is because we had a full quarter of CG performance as well. The consolidated PBT for the quarter was at Rs. 287 crores as against Rs. 136 crores in the corresponding quarter of the previous here. CG Power, which is now a subsidiary company, where we have a 52.6% stake, had consolidated revenue of Rs. 1,454 crores during the quarter as against Rs. 664 crores in the corresponding quarter of the previous year and PBT was Rs. 144 crores as against the loss of Rs. 37 crores in the corresponding quarter of the previous year. Shanti Gears in which we hold 70% had a revenue of Rs. 72



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crores during the quarter, as against Rs. 54 crores in the same quarter last year and PBT was Rs. 11 crores.

Commenting on the financial results, Mr. M.A.M. Arunachalam stated that the results for the quarter are testimony of the resilience shown by the company by bouncing back strongly with healthy performance with most of its businesses reaching or surpassing pre-COVID levels. Engineering and metal Formed product division has witnessed good demand and exports performance has also significantly improved. I am also pleased to say that post TI's acquisition CG Power, the company is on its recovery path is very encouraging performance in all of its businesses. With the impact of COVID receding, our businesses have started full operations. However, the company is taking adequate measures to monitor and control this to ensure steady operation.

So thank you. I'll stop with that and we will turn it over to you for questions. Thanks again.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Abhishek Ghosh from DSP Mutual Fund. Please go ahead.

Abhishek Ghosh: Just wanted to understand in terms of the gross margin erosion that one has seen, if you can just help us understand two things, is that, how much of that price increase RM price increase have you been able to pass on and will it kind of normalize going forward? Second is also, the increase in steel prices. What will happen is if you make 10 on 100 and if you make the same 10 on 120, because of the increase in steel prices, the gross margins appear lower, but you're still making on a unit basis the same thing. Is it also because of that, the gross margins are appearing lower? If you can just help us understand these two things.

Management: Abhishek, you're absolutely right. That's what happens when it comes to gross margin. Whenever there is a significant increase in the raw material prices, which is what has happened in the last one year. That's why, if you are comparing with Q2 of last year, you will see that impact to be quite significant. It's not erosion of margins, it is just the numerator and denominator related stuff.

Abhishek Ghosh: Are there some more price hike which you are kind of negotiating with the OEMs because of the steel price increase have been on a continuous basis. Going forward do you see some impact of, better negotiations and renegotiations of the contract or is it largely price?

Management: Yes, most of the price increase, we are able to recover right up to Q1, but for Q2 we are yet to recover in certain segments of the business, which will be happening in the coming quarters.



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Abhishek Ghosh: The other thing is if I see intervening numbers, which has a lot of dependence on 2-wheelers, if you look at the industry 2-wheeler numbers are fairly tepid and moderated, but if you look at your engineering segment, you're shown a very strong, improvement and growth there, both on a 2-year CAGR basis and both on YoY basis. How should one look at it? If you can just probably bridge is it because of higher steel price being passed on or is it because of higher exports? If you can just help us understand it will be helpful.

Mukesh Ahuja: Mukesh this side. So your observation is right. It is a combination of three factors. The first factor is that raw material price has gone up. Second, our export book is pretty strong and maybe, going forward also, we see that same momentum to continue. Also, we have gained some market share when the market is not doing well. It's a combination of all three is reflecting in the performance and even the non-auto business which is hydraulic cylinder business that is also exports as well as domestic market, both are doing pretty well.

Abhishek Ghosh: What is the exports as an overall, for us now?

Management: Engineering business, it's around 20% now in Q2 for the company as a whole if you see if it's around 15%.

Abhishek Ghosh: This 20% used to be some 10% ..

Management: Last quarter it was around 12%.

Moderator: The next question is from the line of Amit Kashyap from Subh Labh Research. Please go ahead.

Amit Kashyap: I would like to know that the segment, which is supposed to come, for EV, electric scooter, you said that it will be launched in December. Will it be on all India basis or region wise, like South?

Vellayan Subbiah: We didn't say it was in December, we told last quarter in the financial year, we said in the month of March, but because of the COVID it may get a bit delayed, it may be delayed by one more quarter. But where it will be launched is that we may launch first in South India and then nationwide. We have not yet decided till now.

Management: It is EV three-wheeler not scooter.

Moderator: The next question is from the line of Anupam Gupta from IIFL Securities. Please go ahead.

Anupam Gupta: Firstly, on the mobility side, cycles basically slightly volatile in terms of growth and margins, but let's say if we were to extrapolate what you're seeing right now in the market, how do you



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see the growth panning out over the next one year assuming it doesn't revert back to what it was before COVID? How do you see that business panning out and in the same vein you had earlier mentioned that exports there you plan to double in this year versus last year. Is that plan on track as of now?

Vellayan Subbiah:

Both for mobility, so I think, Paul, can you just answer that the questions both are for mobility. Paul is not there, sorry. I think the first question was how do we see the market playing out for the rest of the year. If you see it overall, the market has been down versus last year. We think that a similar trend will continue even for the next couple of quarters where we don't see a massive revival. Usually like April, May, June is the biggest season, but I would say for the next two quarters as well, it'll probably be kind of single digit down compared to last year would be kind of our estimate. The second question was exports in cycles versus last year. Not very significant growth, but it is not insignificant yet is the answer to that question.

Anupam Gupta:

Just to continue there, so have you gained market share and do you see that continue to grow faster than the market domestically?

Vellayan Subbiah:

We have gained domestic market share of about 1%.

Anupam Gupta:

Second question was for the Metal Formed product business, Railways hasn't yet picked up yet there. What has actually driven the uptick if I look at sequentially, there's a healthy growth, which you see in Metal Formed products, even YoY also there's growth is better. What has driven that part of growth there in that segment?

K.R. Srinivasan:

Metal Formed product the growth was mainly driven by the chain business, both automotive chains and industrial chains, also we have been supplying to 4-wheelers, fine-blank and BIW parts, doorframe parts. These two BUs also have shown good traction. Though Railways was down, the other businesses have kicked in and that is how we see the growth.

Anupam Gupta:

Any traction which you see in the railway so far or still continues to remain muted?

K.R. Srinivasan:

We see a definitely improvement in Railways in the coming quarters. They have started increasing their operating levels. In Q3 and Q4 we see progressive increases in our revenues and profits.

Moderator:

The next question is in the line of Rahul Ranade from Goldman Sachs Asset Management. Please go ahead.

Rahul Ranade:

Just a couple of questions on the metal form side of the business. Just curious to know why don't we see a similar growth in terms of the top line for the metal form business, like the engineering business, where even the metal form business would also have that bit of a



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commodity impact which would drive the top line growth. In the similar light, like if you look at it on a YoY basis, the margins obviously have declined for the engineering segment because of the denominator effect, but why don't we see the same in the metal form business also?

K.R. Srinivasan: Rahul that's a very good question. See in metal form business, the export content is relatively less. That is the reason the growth has not been as you compared with the engineering business. That is the answer to your first question. What was your second question?

Rahul Ranade: That why don't we see the denominator effect of the commodity in the margins in a metal form, if we are seeing that in the engineering segments?

K.R. Srinivasan: Our contribution margins are fairly higher in metal form products. That is the reason the effect of raw material increase has not significantly affected the ratio.

Rahul Ranade: In fact, actually the margins have gone up instead of down for the metal form business, if I'm not wrong. Like if the commodity prices actually kind of pull out then would the margins be even better than what they are right now that would be a fair understanding then?

K.R. Srinivasan: You're right. There are two factors to that, one is in metal form products division. We have a, quite a good amount of aftermarket sales business in metal form products division.

Rahul Ranade: Even on a longer-term basis, if I were to kind of look at it, we have kind of structurally been able to improve metal form product segment margins, from let's say 7, 8%, which now let's say in the range of 10, 11%. What would have gone into these efforts? Is it some low margin business we have kind of given away or is it just improvements on our part that we've been able to improve the margins?

K.R. Srinivasan: In all the business units of metal form product division, we have worked on efficiency improvement internally for bringing down the breakeven levels. That has actually contributed to the improvement in the bottom line. That is the improvement you're seeing in percentages compared to the earlier years.

Management: And also the mix of business also plays a role here. As KRS explained the high profitable businesses like auto chains have done well. So that mix advantage is also helping.

Rahul Ranade: Probably the mix more in favor of auto chains instead of kind of railway contribution, which would be a little lower margin business. Is that's the way to understand?

K.R. Srinivasan: Yes, that is also one of the factors.

Moderator: The next question is from the line of Sundar S from Spark Capital. Please go ahead.



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- Sundar S:** My first question is on the engineering business specific to the exports. The ballpark indications are these margins in the exports business better than the domestic ones.
- Vellayan Subbiah:** Yes, that's true.
- Sundar S:** So, this quarter then lastly, numerator and denominator factor led to the lower margins despite having the better mix, is my understanding right?
- Management:** Yes. Like Mahendra explained already there's a numerator denominator effect on it.
- Sundar S:** I would like to know how we see demand, outlook panned out in terms of the OEM demand. What, what have you seen in terms of the order book?
- Management:** It looks like, there is a mixed reaction like commercial vehicle industry and the infrastructure related are expected to do pretty well. As you are already aware that chip shortage is impacting to some extent 2-wheeler as well as passenger vehicles and exports, the demand, looks to be pretty strong even going forward.
- Sundar S:** Any update on that one particular facility that you were supposed to launch in Chennai for critical safety component that was due sometime this year?
- Management:** Yes. That we have commissioned, in month of September and the trials are on and we're expected to ramp up the facility by December.
- Sundar S:** One last question. Any updates on the optic lens business ?
- K.R. Srinivasan:** Optic lens, as you know the plant has been commissioned, the production is going on. There is some lull in terms of demand because of the chip shortage for all the camera module and its component, that is temporary, we suppose. Once that is over, the demand is likely to pick up.
- Moderator:** The next question is from the line of Vimal Gohil from Union AMC. Please go ahead.
- Vimal Gohil:** I have two questions. One is on the other segment; I think the other segment was the one that you introduced very recently in your disclosures and where you house your newer initiatives that were taking. Over a period of time, I noticed a very good ramp up of, we are now very close to 120 crores per quarter. If you could just highlight maybe, in which segment in this others are we seeing growth coming from, that is point number one. The second point is just a clarification on the cycle or the mobility business, which probably hasn't maturity cycle as of Mr. Vellayan, you mentioned that the market is not doing well right now. I'm not sure if I heard that right. If you could just start off reiterate your outlook on the industry, as well as your performance in that segment? Thank you so much.



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Management: As far as the first question is concerned. The other segment mainly comprises of industrial chain, which is what we regrouped from last quarter. Plus of course it has these other new businesses, which are just ramping up. We have just come out of lockdown and they're just ramping up, maybe after a couple of years I think we'll be in a position to talk about those volumes, but right now it's predominantly industrial chain.

Vimal Gohil: If that is the case, then your metal form products would largely be autos and railway, right?

Management: Correct, both domestic and exports.

Vimal Gohil: If you could just help me clarify the comments made in the cycle space, the industry, as well as the company performance, because clearly we've done really well. We are way above what were in FY20 as well. So, just help me understand that.

Vellayan Subbiah: There was a specific question in terms of what the market was doing. What I said was the market is down versus last year, compared to last year, the market is down almost 12%. That was a specific question. Like you said, we have changed our whole model there we've gone a very lean operating model. We are actually seeing good results from that as a result. That's why you're seeing stronger performance from TI. Its two separate points, kind of one is what's happening to the market. One is what's happening to TI.

Vimal Gohil: So market being 12%, I mean, 12% I'm assuming it will be in value terms versus in the first half we've grown almost 40%.

Vellayan Subbiah: So that's why I said, like our performance is different from kind of where the market is. One of the reasons of that is we've also gained market share and we've also shifted our mix significantly towards higher value products. Basically on both counts on a volume count and a value count, we've done better. And overall profitability has also improved in that business. The business continues to get stronger, but the specific question I was responding to was the fact that the market is softer than the market was last year. We expect that softness in the overall market to continue, in order to detach back from our performance, which has been strong.

Vimal Gohil: In cycles, how much would be your domestic space today in the first half of first half, you can just give me the number, how much would be domestic exports mix?

Vellayan Subbiah: Domestic, is predominant, I think it's 97% domestic.

Vimal Gohil: Last question is you said that the within the engineering space, exports has gone from being 10% to 20% in the first half to first half period. The export space has better margins, is what you mentioned?



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- Management:** Comparing Q1 to Q2, Q1 it was around 12%, it went up to around 20% this time.
- Moderator:** The next question is on the line of Abhishek Ghosh from DSP Mutual Fund. Please go ahead.
- Abhishek Ghosh:** A few questions in terms of what will be the broad factory utilizations in each of these segments or at a consol level, just to understand that when we should see the acceleration in CAPEX in the next round?
- Vellayan Subbiah:** I would say like, obviously in cycles, we have enough capacity available because we have both plants. So in mobility, we're not short of capacity. But I left the other two divisions, the division heads to answer.
- K.R. Srinivasan:** In metal form products, we use about 80% of the overall capacity all units put together. We have still room for about 20% more products that can be made to meet the demand.
- Management:** In the engineering division we are already close to 90% of capacity utilization and also our capacity expansion, like what we mentioned, for the safety critical part is already commissioned in September. And we are also expanding in Rajpura. With both again, we will be covered up for next two years growth cycle.
- Abhishek Ghosh:** Broadly, should we look at about 200 crores CAPEX annual broadly, just given the current.
- Management:** This year it could be slightly higher somewhere between Rs. 200 and 250 crores we may spend. We have this three-Wheeler EV project.
- Abhishek Ghosh:** The other thing is, export is a segment which is doing very well for you, but when we hear, from lot of these companies who are exporting in issues of freight rate, increasing container shortages. Just to understand this 20% expose which you spoke would that have been 25% if the freight rates for normalized container things were normalized. Any thoughts around that and competitiveness given the freight rate increases?
- Vellayan Subbiah:** I think part of what you have to understand is like, honestly, nobody understands fully what's going on in the world right now. There are too many things that are going crazy. Obviously the one advantage we haven't seen is that kind of the raw material costs, in India right now steel seem to be advantage especially versus the US, which is basically still steel raw material cost at a much higher price, therefore, the export kind of gaps, despite the fact that, basically container costs have gone up like crazy. All of that, the export market is still sound right now, this is dependent on various dynamics. I would say like, everything else like nowadays China seems to be at the center of what's going to happen with it. So, right now it looks like, the stances that are being taken both by China domestically in terms of shutting down steel capacity, therefore, steel prices kind of varying, honestly, I don't think steel prices have varied



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so much by geography. Historically I've never seen such spreads. So the steel price spreads combined with everything else is what's kind of defining this. If your question on kind of will the margins improve, if container prices come down, I think more than container prices, the bigger question is going to be what happens to everything else. What happens to the steel price spread? What happens on America's outlook towards China? So those will be the two biggest factors I would say that would drive what happens more than the container prices. Obviously container prices coming down will help us, but then these other two factors, if those spreads continue to kind of remain as high, then that will be a larger driver than the container.

Abhishek Ghosh: India in terms of exporting is kind of favorable because of the steel price rate, despite container prices moving up?

Vellayan Subbiah: Absolutely. That gap is kind of far outweighs the other gaps right now. What is the math right now Mukesh? How much is like the domestic price of steel in the US is running what?

Mukesh Ahuja: Currently in India, it is running around \$ 1,000 and US market is clocking around \$1,700.

Vellayan Subbiah: That's the spread you are seeing right now, that far outweighs the cost of transport a ton. What is a 20-ton thing to us right now? How much 20-ton cost?

Mukesh Ahuja: Those costs have gone up. It is almost about now clocking at \$150 or so per ton.

Vellayan Subbiah: Basically you're seeing that swing in container prices would have been almost like \$100, more than \$100. Whereas the swing right now in raw material prices, like you can see, the gap is almost \$700. That should help you with your math obviously. All I'm saying is like, if container prices come down, that's not going to be heavy, it depends on what that other spread is also sitting at.

Abhishek Ghosh: Just taking a step back, looking at a journey over the last three, four years first was the cost efficiency margin improvement program, which you kind have achieved, then was getting into an acquisition, which you have just done about 12 months back. And, while the benefits are still to kind of come through the larger benefit at least that seems to be stabilizing the way we are seeing it. What's the now most, the way we should look forward in terms of capital allocation, you're generating almost 600 crores of cash flow every year, 200 goes into the CAPEX, but how should one look at the company the next way forward or there's still time around, then you kind of decide on that just your thoughts on that.

Vellayan Subbiah: I think we've articulated a bit and that story is not changing so much. Like we said, the way we look at it, like is that 200 to 250 crores CAPEX, TI-1 we've continued to be able to grow it between 6 to 10% a year. So that is the core. That is, what's going to generate that, free cash flow like you said, it won't be 600 crores, but it will be kind of, maybe north of 400, 450 crores



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or so. So, yes, but you're right, because basically kind of that's the cash flow being generated after the CAPEX of 6 to 10%. So TI-1 will continue to grow at 6 to 10%. There's still more work to be done on lean there. We're starting on that lean efficiency, initiative. I shouldn't call it lean efficiency, but it's a lean initiative that's basically starting next month, so that will start, then we need to kind of look at the next level of opportunity in terms of margin improvement in the core businesses. That is step number one. So that's, what's going to spin off the cash, the cash like we've said before will be used for TI-2 and TI-3. The idea with TI-2 is to build these new platforms, but these platforms won't be what generate the revenue or the bottom line for us now. We're investing in those platforms that 5 to 7 years down the line, it can keep our compounding rate at the same level. TI-3 will be kind of much lumpier. We will continue to look for opportunities there. Like we said, the key thing was that we had to be debt-free. Like you said, also CG is looking much more positive now. As we get more confidence that the two companies are getting to that debt-free position, we will start looking at other opportunities on that track as well. The path remains kind of the same. The long-term objective, like we said is, over time we want to build 10 business platforms. Each of which, can basically have multiple divisions and each of which has basically focused on their own line of business. Towards that end I say, we have like maybe four business platforms now and then we have to kind of grow out the rest over time. That's basically why we're seeding TI-2 and TI-3, but each of these will then become scalable engines unto themselves. Over time, we've talked about this whole compounding story, internally we have math's in terms of how it will work, but basically the focus of it all is like a compounding cash flow engine, that continues to compound, well may not be as a rates we've done for the last two, three years, but definitely kind of at a 25% plus rate, over a long period. Our design is to try and let it get compounded at that rate over a 10-year period.

- Moderator:** The next question is from the line of Niketh Shah from Motilal Oswal. Please go ahead.
- Niketh Shah:** Just couple of questions. One is on the engineering part of the business. While Abhishek did ask the question about the numerator, denominator on the raw material side, was there any role played by any product mix to bring margins to slightly lower levels?
- Management:** Like we said earlier, there is no margin erosion, then it's a numerator and denominator.
- Niketh Shah:** Apart from the cycle business, are there any other businesses within specifically within engineering business and the metal form business, which are lower than company average margins?
- Vellayan Subbiah:** Right now, the railway has been, it's traditionally not been, but right now the railways businesses, because the volumes are so low over there.
- Niketh Shah:** We should start seeing some traction from the 3rd quarter at least on the railway side



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- K.R. Srinivasan:** Yes.
- Niketh Shah:** Just one final question, if you can highlight on the optical lenses part of the business, although it might be very small at a day, what would be the margins that one can really think of assuming the plan runs at full utilization?
- Vellayan Subbiah:** What we said that this, all we did with this was just to be able to prove that we can actually make these things. In steady state it will have like, our belief is like 15% margins, but that's not going to happen with this facility, this facility is too small for that. We spent only 37 crores on that. All we were trying to do is kind of ensure that we can get the quality. Once we feel comfortable that customers are satisfied and the quality is there is when we really invest to build that business at scale, the current version won't have that, those kinds of markets.
- Niketh Shah:** Is it safe to assume that, given a numerator denominator effect broadly the margin would have bottomed out at current levels and we should only see improvement from here on? It might be gradual, but obviously there are a lot of moving parts on raw material side, but assuming raw material where it stays today, we should see margins improving from current levels and not decline further.
- Vellayan Subbiah:** Obviously there are initiatives going on to improve the margins. Obviously this was a huge move on the denominator, denominator moved was almost 70%. Actually to kind of maintain it close to 10, when the denominator is moved, 70%, you can reverse the map and see what we've actually gone to if the denominator was the same as before. I think, yes, but obviously kind of the initiative is going to be to improve margins. It gives us an opportunity now to do work more at it, which anyway, the teams are working on right now.
- Niketh Shah:** That would have some benefit while it is obviously a negative benefit on margin because of numerator denominator. It also has some positive benefit on the top line, so it kind of converges both sides and when the raw material comes off, it kind of converges both sides.
- Vellayan Subbiah:** I know it's a crazy situation. It is top line, but all top line like vanity statement. So that's the danger with this. Like, the real growth we look at and measure internally is whether tonnage is moving up. That will continue to be a focus then.
- Moderator:** Our next question is from the line of Nishit Jalan from Axis Capital. Please go ahead.
- Nishit Jalan:** My question, basically I just wanted to hear your thoughts and strategy and the TI's business. I know you have outlined it very well in the past. I had some specific questions, firstly, how do you decide or what are the key criteria which you use to decide, which businesses to enter, is it ROCE, is it customer driven and this question is also from the perspective that in earlier con calls you highlighted that, as a company you would want to diversify away from auto side,



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because it's very high CAPEX intensive and very cyclical. But if I look at the three big businesses on the TI side that we are seeding like the optic lens, the truck building and EV three-wheeler, all are pertaining to autos. So just wanted to hear incrementally from here on should we assume you would look at more in the non-auto businesses. From top-down perspective do we have any target in terms of what kind of investments on a cumulative basis you would be looking into TI-2 over the next 5 years. Entire cash flow generation from the core business will go into this or you will try to maintain some dividend policy as well in that would take out some cash in the remaining would go into these businesses? Thank you so much.

Vellayan Subbiah:

So, first, yes we will continue to follow our dividend policy, I think that will continue in its current form, so we will continue dividend. So we won't stop that. That's the first thing, but, obviously as the cash flow improves, it gives us, a fair amount of free cash even after the dividend policy and CAPEX for existing businesses. If I had to estimate once growth starts kicking in, I would say that we would be spending at least 200 crores a year on TI-2 like opportunities going forward. The third question was, are we going to diversify with, so by the way, this one statement I've made also on the auto side is that we didn't kind of we want to kind of move away from auto components supplier. EV three-wheeler, we see as an opportunity because, we OEM business in India in auto has definitely been better than the components business. So we continue to see that as an opportunity and hence EV three-wheeler. Now coming to how do we select; we've talked about our criteria in the past. I think it's kind of well-documented in calls. We basically said, for TI-2, I'm talking about lower capital intensity, looking at kind of the right mix of kind of B2C and B2B, looking at unorganized to organized as a trend and then playing off of what we see as a mega trend, kind of electric vehicles obviously an ADAS for one, we've talked about kind of, like our interest in medical comes from the fact that, India continues to spend more on medical. I think India's healthcare is a percentage of GDP is about 2.5 to 3% versus the US which is almost a 20% if we take pair on provider. There are segmental kind of shifts that we see because of mega trends that we see driving some of the areas we're looking at. We actually are working with some consultants also in terms of identifying opportunity areas to get to, and that helping us basically identify what we see as areas of greatest potential. Like I said, there are whole bunch of mega trend that we look at, including most lately, this whole area of China Plus One, right where, people are beginning to look at India as a second source in some businesses. I would say that it's a combination of those factors as basically kind of allowing us to develop filters and decide which businesses we get into. As we kind of get into a new platform, obviously we do communicate it with you and will continue to do that going forward.

Nishit Jalan:

There's small follow-up on this optic lens. This optic lens I think we have set up about 6 million capacity on annual basis, wanted to understand what is the revenue potential from the current capacity that we have set up. Just wanted to understand the asset turns?



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- Vellayan Subbiah:** It's tiny, you can look at it about 50-60 cents per lens, 50 cents a lens we are talking just about \$ 3 million. So a very small.
- Nishit Jalan:** Does it mean that the asset turns in this business are less than one because we have invested 30 crores or maybe a lot of CAPEX has gone initially into land and building, which will not recur. What kind of asset turns can we see in this business once this came up, this into a much bigger plant?
- K.R.Srinivasan:** When you really scale up our investment turnover ratio will better. This is only a pilot investment. I will put 1:1.5.
- Vellayan Subbiah:** You're saying sales will be 1.5 times. Sales will be 1.5 times investment.
- Moderator:** The next question is from the line of VP Rajesh from Banyan Capital. Please go ahead.
- VP Rajesh:** As you were talking about the growth of 25% over the next 10 years, I was just wondering, how much of that growth coming from the current platforms that you talked about 4 of them. And what do you expect from the newer platforms, whether they are currently incubation period or something that you may do inorganically?
- Vellayan Subbiah:** Like we said 6 to 9% is the revenue, by the way we are talking about bottom line growth, not top line. So the revenue growth 6 to 9 in the existing businesses. If you average that at like, let's just say 7.5 and you have some margin expansion on top of that you will only get 8 to perhaps 10% coming from the existing businesses. The remaining 15 to 17% has to come from new businesses. I'm talking again about bottom line growth. In some cases it will be lumpy like the CG acquisition in which case kind of, you'll get a lumpy chunk coming in from that. That's why we said that TI-3 has to be able to seed it in the in-years and in the out-years basically, it will be driven by TI-2 opportunities.
- VP Rajesh:** And on the cycles business, given the growth we have seen, the question is, you are gaining market share, is it because of when you said product mix, but is it also because the competitive intensity has gone down? If you can just give some commentary around the competitive intensity?
- Vellayan Subbiah:** I'll put it in a different way. I would say that our competitive intensity has gone up, basically on a relative basis is what you have to look at these things. I just say, I would say that we are competing a lot more aggressively in that business, Paul, I don't think is on the call, but Paul and team is basically doing a great job there.



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VP Rajesh: If I may just ask one more there. Are you saying that you are discounting or you are being more aggressive to take market share and new competitors, the number of competitors let's say in the business is still the same that it was, let's say a year ago?

Vellayan Subbiah: No, first of, we're not discounting, you can see that basically our margins have gone up as well. It's not like we're discounting and kind of dropping margins to basically gain market share. You can see that. Basically, that is why I'm trying to explain to you the way we compete is what we've changed. It's basically they've gotten a lot more leaner, in the way we compete. We're able to kind of respond to, kind of the channels much more efficiently. We're able to basically service the channels and work with the channels a lot more effectively and create products that is much more relevant to the end consumer. In terms of NPD, in terms of supply chain, in terms of overall efficiency, even in terms of costs, that's how we basically been driving in the competition.

VP Rajesh: My last question for the time being, on Shanti Gears, what is the capacity utilization and what do you see the prospects going forward? Do you see the industrial growth coming back? Because it has been, let's say in the last five years. Just curious about your thoughts on that business.

Vellayan Subbiah: Yes. Capacity utilization is not that high in Shanti. I'd say it's at about 70% overall. In terms of prospects, definitely with capital goods coming back, in a fairly big way, at least we think that infrastructure and capital goods are going to come back in a fairly big way. That is something that will help Shanti.

Moderator: The next question is from the line of Maitri Parikh from PI Square Investments. Please go ahead.

Maitri Parikh: You say that you have gained 1% of market share his quarter, how much is the total market share?

Vellayan Subbiah: Our market share is about 25%.

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

Vimal Gohil: Just a question again on the optic lens business. I'm sure you must have done some sort of an industry sizing exercise before we deployed capital. If you could help us, give us some numbers as to what would be the size of the industry in India for the optic lens, any market share numbers that you are targeting?

Vellayan Subbiah: This business was not focused on India at all. Even what we're making today nothing we sell in India, we export everything. It's a hundred percent focused on exports because there are only



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three countries in the world where this is getting produced right now. Maybe four if you include Taiwan. China, Taiwan, Korea, and Japan, it's getting increasingly uncompetitive to make it in Japan and Korea. We're making it in India and exporting it. We're not focused on the local market. The global market for lenses right now is about 4 to \$5 billion.

Vimal Gohil: The end market that you're targeting is majorly autos, right?

Vellayan Subbiah: Yes, only autos right now.

Vimal Gohil: The 4 to \$5 billion is the end market auto optic camera.

Vellayan Subbiah: These are just lenses.

Moderator: The next question is from the line of Aman Rakesh Shah from Jeetay Investments. Please go ahead.

Aman Rakesh Shah: My question is on subsidiary Shanti Gears. Part of it you answered in the earlier question, my main question is, we see good revenue order booking over last three quarters there. Should we see that flow through the revenue profile over the coming quarters? In the second part to this is the composition of order book should also lead us to the similar gross profit margins that we are earning right now.

Vellayan Subbiah: I'll tell you that business is a business that's slightly challenged right now because the whole supply chain has been hit which is basically kind of even getting steel right now in that business because it basically uses forged steel, totally different process, is a challenge in that business right now. Our challenge in that business, I would say right now is not as much with demand as it is with kind of the supply chain and our ability to meet that demand. That's why, I'm kind of more wary about giving any potential outlook on what we will hit over the next couple of quarters. But I hope that answers your question.

Aman Rakesh Shah: Also, we have ample land available if I'm not wrong like Shanti Gears, how do we plan to use that land which is I think lying idle or something?

Vellayan Subbiah: No, obviously we will look at it as our businesses expand we'll look at it. We'll obviously look at that as one of the alternatives, if it appears that Coimbatore is the right place to put in some of those businesses beyond that we have no plans right now.

Aman Rakesh Shah: Lastly there is more composition change that Shanti Gears, would you put some light, any reason for that or just technical thing that required for this change?



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Vellayan Subbiah: Yes, so it is driven by multiple things. I mean, as, I look at kind of, I think you're asking why I got off the board and I think that the reason for that was basically because as I look at, overall responsibility, I basically kind of, while I said continue to have oversight of Shanti in my role as MD of TI. I want to pass some of those responsibility, every year we've said the same thing, which is the only way the company can scale is that if I keep passing some of my responsibilities over to my direct reportees and from that perspective what has happened in Shanti is, that Mukesh is my direct reportee right now, TI has kind of taken over my responsibility there at Shanti. Though I continue to have responsibility and oversight over the company, as the MD of TI.

Moderator: Thank you. Ladies and gentlemen, that would be our last question for today. I now hand the conference back to the management for their closing comments. Thank you and over to you.

Vellayan Subbiah: I think, nothing else from my side, hopefully we've answered all of your questions. Turn it over to IIFL.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of IIFL Securities Limited, that concludes this conference. Thank you all for joining us. And you may now disconnect your lines.