



“Tube Investments
Q1 FY2023 Conference Call”

August 03, 2022



ANALYST: MR. ANUPAM GUPTA – IIFL CAPITAL LIMITED

MANAGEMENT: MR. VELLAYAN SUBBIAH - EXECUTIVE VICE CHAIRMAN – TUBE INVESTMENTS
MR. ARUN MURUGAPPAN –EXECUTIVE CHAIRMAN – TUBE INVESTMENTS
MR. MUKESH AHUJA – MANAGING DIRECTOR – TUBE INVESTMENTS
MR. MAHENDRA KUMAR – CHIEF FINANCIAL OFFICER – TUBE INVESTMENTS
MR. K. R. SRINIVASAN – HEAD, METAL FORMED BUSINESS – TUBE INVESTMENTS
MR. K. K. PAUL – MANAGING DIRECTOR – TI CLEAN MOBILITY PVT LTD



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Moderator: Ladies and gentlemen, good day and welcome to Tube Investments Q1 FY2023 Earnings Conference Call hosted by IIFL Securities Limited. As a reminder, all participant lines will be in the listen-only mode. 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 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 Securities Limited. Thank you and over to you Sir!

Anupam Gupta: Thanks and welcome everyone to Tubes Q1 FY2023 conference call to discuss the results. From the management, we have Mr. Vellayan Subbiah, Executive Vice Chairman, Mr. Arun Murugappan, Executive Chairman, Mr. Mukesh Ahuja, Managing Director, Mr. Mahendra Kumar, CFO of the company, and Mr. K. R. Srinivasan who heads the Metal Formed business as well as Mr. K.K. Paul, Managing Director, TI Clean Mobility Pvt Ltd and a few other members from the team. I will hand over to Mr. Vellayan for the opening comments and post that we can take the Q&A. Over to you Sir!

Vellayan Subbiah: Anupam thanks and good morning everybody. We had a good quarter with the PBT before exception of 180 Crores. Revenue for the quarter was at Rs.1957 Crores compared to Rs.1257 Crores for the same period previous year. As you all know last year we had COVID situation the numbers are going to look a bit stuck. PBT was at Rs. 180 Crores as against Rs. 130 Crores on the same period previous year and ROIC was at 49% for the quarter compared to 41% in the previous same year period. Free cash flow for the quarter was at Rs. 139 Crores so with that we will just get into individual businesses. The good thing is that free cash flow is back to its higher and strong levels. The engineering business the revenue was at Rs. 1244 Crores compared to Rs.815 Crores in the corresponding quarter and PBIT for that business was Rs. 118 Crores as against Rs. 83 Crores for the corresponding quarter. Metal formed had revenues of Rs. 335 Crores versus Rs. 245 Crores in the corresponding quarter and PBIT was Rs. 38 Crores versus Rs. 26 Crores in the same quarter last year. The Cycle division had revenue of Rs. 246 Crores during the quarter compared with Rs. 172 Crores in the corresponding quarter and profit was at Rs. 9 Crores versus Rs. 7 Crores in the same quarter last year. The other businesses had revenue of Rs. 223 Crores compared to Rs. 88 Crores and PBIT was Rs. 17 Crores as against Rs. 10 Crores in the corresponding quarter for the previous year. At a consolidated level, the revenue for the quarter was at Rs. 3799 Crores as against Rs. 2437 Crores in the corresponding quarter and the profit before share of profit of associate joint venture exceptional items for the quarter was at Rs. 342 Crores as against Rs. 192 Crores in the corresponding quarter of the previous year. CG Power and Industrial Solution, subsidiary company, in which we hold 58.05% stake registered consolidated revenue of Rs. 1665 Crores as against Rs. 1050 Crores and its PBT was at Rs. 172 Crores as against Rs. 71 Crores in the corresponding quarter last year and Shanti Gears which is also a subsidiary company in which we own 70.47% stake had revenues of Rs. 99 Crores during the quarter as against Rs. 67 Crores and PBT for the quarter was at Rs. 18 Crores versus Rs. 12



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Crores. Commenting on the financial results Mr. MAM Arunachalam the Executive Chairman said despite the continuing changes in supply chain constraints, fuel and commodity prices the company has witnessed steady performance during the quarter. Growth was higher in the domestic market, in engineering, metal formed and industrial chains. The previous year was also affected partially due to COVID. The company is also making steady progress on its launch for EV three-wheeler and tractor products. The performance of our subsidiaries CG Power and Shanti Gears Limited have been very encouraging delivering strong growth and profitability across all segments, so Anupam that is quick summary of quarter performance and with that we will be happy to turn it over for questions.

Moderator: Thank you. We will now begin the question-and-answer session. The first question is from the line of Ginesh Gandhi from MOFSL. Please go ahead.

Ginesh Gandhi: Can you talk about export how the growth in this quarter is with second half exports doing well.

Vellayan Subbiah: So I think that is a good question and actually engineering too much inventory had built up especially in the European market. European market is especially critical for growth in the engineering business. The industrial chain business had great export but for commentary on the engineering export I mean we really think it is going to pick up in the third and fourth quarters but specific numbers if you would like Mukesh or Murali if you guys can just jump in it will be great.

Mukesh Ahuja: Like Vellayan told this particular quarter we see inventories are piling and there is lot of fluctuation in the commodity prices. The steel prices have also come down which is going to neutralize in another one quarter and after that we see demand is strong and particularly in OEM side. Engineering has done a good job by taking customer approvals on the OEM and that will continue to drive the growth for exports. And also last year Q1 we had some pent-up demand so in comparison that can be effected.

Vellayan Subbiah: But honestly, we do see a strong second half from exports perspective right now and especially with what is going with Ukraine Russia thing I think second half will be very strong.

Ginesh Gandhi: But can you share what is exporters percentage of total revenue standalone revenue and what would decline in exports or growth in exports what that number is.

Mahendra Kumar: The company as a whole it was around 16% if you see engineering alone it is 21%.

Ginesh Gandhi: Second question is on the railways business. Are we starting to see some traction in terms of order coming through because some of your peers are still in the segment of railways has started to see substantial traction in order coming from railways are we also seeing similar traction there.



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Vellayan Subbiah: Yes you are right railways, there is a traction which is improving compared to the previous quarter and new tenders have started getting released and that is getting released with even better price points because the commodity prices are also softening it. So going forward we will see the railway business will also pick up starting next quarter.

Ginesh Gandhi: And lastly can we talk about your approach to investment in TI2 given that in Q1 itself for four months they have already invested close to 250 Crores so how should we have look at TI Investment. We are talking about base investment of 200 Crores per annum but how do you approach given so much happening on that side of business.

Vellayan Subbiah: So Ginesh I think two things happening, like we said though we have still a pipeline in TI3 we do not see that much activity on TI3 right now just because kind of lot assets we feel are fully valued right and so we are bit concerned about going into an asset on that side now and given that we are seeing a lot more opportunity on the TI2 side right now. So obviously the biggest area has been on electric vehicle and we think that will continue to be our biggest area of spend and so over time our vision to get in at least four platforms. Right now we have announced three-wheeler, we have announced tractor. We have announced the heavy commercial vehicle. I mean tractor and heavy commercial vehicle were through acquisition so we do see a fourth platform as well and so we see that as consuming kind of large chunk of our TI2 capital. We continue to hold the same prudence which is basically we have said that we will not exceed two times free cash flow so I think capital efficiency wise we will continue to kind of maintain that, but we definitely see a lot of opportunity in electric and we are going to invest in that. Our sense is to take each of these platforms to market. We are talking about roughly Rs. 250 Crores each which means Rs. 1000 Crores outlay against four platforms in the market. Then we will see how the platform scale and then accordingly where we need to double down and invest more.

Ginesh Gandhi: And when we are talking about fourth platform that is two-wheeler sides.

Vellayan Subbiah: So, we can also say we are not doing two-wheeler because the two-wheeler side is too crowded. We have always said that we are more interested in the productive side of the spectrum than the consumptive side and the two-wheeler side is too crowded and we do not see profit pools in that sector for the foreseeable future because there is just too much venture capital going on. The rate at which these guys are losing money Ginesh that is not the kind of business we can play. We are still kind of old school we still have to make money now that is the way we look at it.

Ginesh Gandhi: That makes sense and that is more sustainable way of getting into business. There is few more questions I will fall back in queue, thanks.



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Moderator: Thank you. The next question is from the line of Aman Agrawal from Carnelian Capital. Please go ahead.

Aman Agrawal: Good morning Sir and thanks for the opportunity. Sir my question was on TI initiative and from a medium to long term point of view so if see our non-EV business, like the truck building, the TMT bars that we use, so when the opportunity for the truck body and TMT look smaller but they do seem good in terms of ROC profile while the optic lens business looks very scaleable so like how are we thinking about this business in terms of strategy are we focusing on better returns or do we think of this as very large business which could not contribute meaningful in terms of the bottom line of the company.

Vellayan Subbiah: So, I think it is a good question. See honestly I would say two things, one is that the businesses did get derailed quite a bit due to COVID right and I would say we lost almost two years in all of the businesses due to COVID, the second is that we are seeing differential levels of scalability like you correctly pointed out between the three businesses. Of the three the optic lens business is the most scaleable, the challenges we have had with optic lens like we have said it is all imported equipment nobody else makes these things in India so basically we are very dependent on basically either Koreans, all the equipments are Korean so we are very dependent on those people coming in and setting up and getting the factory going on. There has been a massive reluctance on lot of these guys to travel so that is what is delayed that project significantly. I mean in the sense like the factory is up but we are not able to get it to full production. I do believe that business is going to be immensely scaleable but it is delayed and with the other businesses also they got quite derailed due to the whole COVID scenario because with truck consumption coming down, with lot of things coming down basically those businesses got quite derailed as well so I would say that now is our time to rebuild. I do not think the other two businesses are going to be as scalable as the optic lens business, so obviously I would say the optic lens is going to be the most scalable.

Aman Agrawal: Thank you Sir. The answer was really helpful and my second question is on EV business. Now we are into three wheelers, tractors in the EV segment so like what is the strategy in terms of EV. Do we want to become major player? Do we want to initialize our focus on south region which is our dominant region and later if we are good with the product then expand it nationally and in terms of tractor and M&HCV is an easy penetration is expected to be slower and given the product is not even at a full scale even at global level so do you think we will need to spend more on R&D and other expenditure on tractor and M&HCV segment going forward apart from the already Rs. 600 to Rs. 700 Crores we have already in the segment.

Vellayan Subbiah: So definitely these businesses are going to require R&D investment. Secondly, in terms of you asked what do we want to be in these businesses. Our belief really is that we are at a significant stage of



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disruption in the industry and if you look at what is happening globally also you are going to see new global majors get defined in new categories of space. Everybody only talk about Tesla but each category by category if you see what is happening with Rivian. There are new companies that are beginning to acquire significant market share so our objective with which we are going in is to be definitely to be a very relevant player so there is no other way we are looking at it saying we see an opportunity where there could be a redefinition in terms of who the largest players in the country are in the whole commercial segment and we see definite opportunities for their products also. Second question was on some of these areas there has not been global penetration. We talked about tractor and heavy vehicles. I definitely think that like what happened with some of the other technologies including of mobile telephone I think India is going to start playing a significant lead role in electric vehicles. If we look at the next 10 years and one of the reason why we believe that is because if we take categories like tractor I do not think there is going to be other natural leader that basically comes out. India is most logical. We sell the most tractors globally and therefore for India makes more sense and even with heavy commercial vehicles the kind of used cases because if you take what happens in west in general heavy is run really long distances at very high speed and therefore battery consumption tends to be extremely, extremely high but there are lot of cases especially even in India where the heavy vehicles runs point to point so you have then running like 150 kilometer route from a steel factory to a port and they are just kind of keep running across these points so that makes it more feasible to convert certain categories first and then other categories later. I think heavy vehicle to electric can be converted more easily, so we are quite keen on being the leader in lot of these categories and does that mean it is going to require R&D yes definitely and we will have to invest in that to make it happen.

Aman Agrawal:

That was really useful. Just one final question so since we are getting into this OEM business now and doing auto we cater to most of the players in two-wheeler in other segments so players like Bajaj who are already in the two wheelers but they are also three-wheeler where we are getting into business and again players like Tata Motors and we are getting into the CV side so do we see any chances of them taking business away from us from the auto business.

Vellayan Subbiah:

I think that is a valid question. I just look at the way world is evolving globally and I think that the example I like to use most is that of Samsung right. If you take an Apple I Phone the largest supplier for the Apple I phone and I still believe that is the case though I am not sure now but a significant supplier to the Apple I phone of components is Samsung and yet I Phone's biggest competitors in terms of completed OEM phone is also Samsung right so I think the way the world is evolving now. Everybody has to co-operate with people in some way, has to compete with people in some way and I think that is the way the world will continue because of the way technologies are going right. I mean lot of technologies are becoming very platform oriented and honestly right now we have no scale



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compared to any of those guys right so I do not think right now Tata would even see us as kind of credible threat at this point of time.

- Aman Agrawal:** Understood Sir. That was really helpful. I will join back in the queue.
- Moderator:** Thank you. The next question is from the line of Jeetendra Khatri from Tata Mutual Funds. Please go ahead.
- Jeetendra Khatri:** Sir are you doing something on light commercial because Bosch is trying to do something on electric.
- Vellayan Subbiah:** There is nothing specific that we have announced or talked about on the light side.
- Jeetendra Khatri:** Okay and on the heavy commercial vehicles so let us say Ashok Leyland and Tata Motors ramp up their effort so how do you plan to compete in the future.
- Vellayan Subbiah:** I think it is similar to that question that was just asked. Basically everybody will be getting into it and different people will take different approaches right, so with which segment they choose so we have chosen a particular segment to go after and heavy is the start, starting with a 55 tonne truck then we will see how those segments evolve over time but it is going to be a market where you going to have new entrants compete against incumbent and that is the way a lot of these markets have been globally.
- Jeetendra Khatri:** And Sir just in case and hydrogen and fuel cell etc if they to manage to make inroads so are you ready for the technology in 55tonne segment.
- Vellayan Subbiah:** I mean the good thing is if hydrogen fuel cell came about right so basically what you are going to have is you are going to replace a very large battery today with hydrogen fuel cell in heavy I think it still will be heavy battery because you will not be able to get enough super capacitors there unless super capacitors prices come down but I think basically more of what will happen is that you will replace a very large battery with hydrogen fuel cell and some kind of storage which will be a smaller battery so from that perspective the fundamental design stays the same even if we are going to hydrogen fuel cell but as you know the belief is that hydrogen fuel cell is still at least about 5 years out especially because of the infra structure required to kind of get that going.
- Jeetendra Khatri:** And lastly Sir what is your internal gestation period which you keep as benchmark for TI2 for new business.
- Vellayan Subbiah:** So I will tell you we are also learning in the process. Now when we get into anyone of these new platforms we have said that within 6 to 9 months we would like that platform to generate revenue but also what we are seeing on the whole vehicle side is that homologation process has its own timeline



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right and you cannot get the product to market until you have homologated. So the good thing with the 55-tonne truck is that we already have homologated product. Tractor is not homologated yet so tractor will take longer because of the homologation cycle so I think that is the constraint function so I think it can take up to a year after acquisition to basically get the product to market.

Jeetendra Khatri: I was asking actually more broadly for your entire TI2 and for example your optics etc so broadly what is the gestation period you have internal target.

Vellayan Subbiah: So I do not think we can take gestation period right because anyway if you ask you want to get it going as quickly as possible or within three months but if you see what happened with optics honestly there was a real misfortune in terms of timing which is just after all the equipments started coming COVID hit and then we just had no way of starting up these machines because nobody even understands these machines in India so this thing is gotten hit by over two years just in that process so I think there is a gestation we would like but I do not think that is going to happen in lot of these products.

Jeetendra Khatri: Thank you so much. Thank you very much.

Moderator: The next question is from the line of Dhruv Maheshwari from Premji Invest. Please go ahead.

Dhruv Maheshwari: Thanks team. Thank you so much for the opportunity. My first question to the team generally if you can speak about the two acquisitions this quarter typically what are the capabilities in the end game right we would have product and just a follow up on this one is when we acquire a controlling stake in such companies do we try and keep the promoters on board to run the business or what is the thought process there that would be helpful to know and then I have another question.

Vellayan Subbiah: First question is what is the logic and capability in Moshine and in IPLT. So IPLT I think we just talked about it basically they have homologated 55 tonne truck. They have an older version of that truck which is retro fit that is already kind of in the market so it has been running for close for two years about twenty trucks are out there so our intent is to now manufacture this homologated truck and sell it to customers who have this point to point application so the ideal targets are steel, cement, a lot of them have this point to point application and for the point to point application the economic benefit on an electric truck is already real and current so there is real economics in getting this product out to customers immediately. In parallel we would start developing other products that we think will be ready in 12 to 18 months timeframe from now so is that clear in IPLT.

Dhruv Maheshwari: Yes that is very clear.



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- Vellayan Subbiah:** On Moshine basically they have the capacity to make the lower end mobile camera module and the intent there is to become a camera module provider to start with a lower end then work our way up the chain so that is quick intent with Moshine so they already have a manufacturing facility in India making these lower end camera modules so we will continue with existing customer and then build up on that.
- Dhruv Maheshwari:** So is it fair to say that this could be complimentary to what we are trying out with lens or this is going to be a separate sort of
- Vellayan Subbiah:** You are right in the sense that basically now we will go full spectrum on lenses because basically those are glass lenses these are plastic but it gives us the opportunity to go full spectrum on lenses in the future.
- Dhruv Maheshwari:** Just in terms of running in these businesses would the existing sort of promoters continue to run them?
- Vellayan Subbiah:** It is valid question obviously the existing promoters will continue to have a role and in some cases we will continue to run. It depends fully on the capability of existing promoters so they will continue to have a role in some cases they will run in some cases they will be part of the team.
- Dhruv Maheshwari:** Understood thanks. On the EV bid you talked about the four platforms that we are planing to launch, still early days but are we looking at sort of common distribution network because now that we have moved from ancillary to OEM are there challenges in setting up or preparing for a distribution, if you can share your thoughts that would be helpful.
- Vellayan Subbiah:** Will it be a common distribution network. I mean these are very different products so for the most part there will be separate distribution networks as well. I think your second question was a bit of unclear you were saying will there be challenges setting up the distribution network.
- Dhruv Maheshwari:** Are you facing any challenges like we would have started off with three wheelers.
- Vellayan Subbiah:** Three-wheeler experience has been fantastic today so it has been a very good experience.
- Dhruv Maheshwari:** Thanks a lot.
- Moderator:** The next question is from the line of Niket from Motilal Oswal AMC. Please go ahead.
- Niket:** Just one question of IPLT. You highlighted most of the company so it is largely covered. Just wanted to get a sense on order book The product is very well known and whatever things we have done I



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think they were very healthy order book but there are issues on production so are you going to invest more to ramp up the production capability.

Vellayan Subbiah: Yeah absolutely so that is the first thing we will do. We are already looking at a production facility that we can get ready in about 8 to 9 months timeframe so volumes will remain muted till we can get that production facility up. Obviously, we will continue to keep you updated as we can kind of get that second facility which will still be kind of smaller than a full large-scale facility but it will ramp up the capacity significantly from the current level.

Niket: And would it be possible to share what is the order book for that?

Vellayan Subbiah: We are not sharing yet. I think give us little bit more time. I think maybe next quarter we will share a more compressive order book.

Niket: Sure The second question was on margins so I think this quarter safe to assume that margins would have bought a float and the benefit of the lean program should incrementally start flowing in the next quarter as well as the numerator denominator starts to come off.

Vellayan Subbiah: I think Mukesh, I will let Mukesh answer that.

Mahesh Ahuja: Regarding lean these are early days. Like we rightly said the benefit has started flowing but we have a long way to go on this and we have good headroom available leveraging the lean journey to improve the margin side of the story and like we rightly said the commodity prices is creating some issues on the numerator and denominator and that depends on the external environment how the commodity prices goes up but we are making sure that absolute margins are always protected or it has improved year on year.

Niket: If I want to look at it that has only improved because that is right way for numerator denominator so EBITDA per tonne in the last two years would have seen improvement.

Mahendra Kumar: This is Mahendra. We have different mix of product so EBITDA per tonne may not really apply to our industry. It may work for the commodity industry like cement or steel but we have different types of product, different types of value return on products also so that might not be the right metric.

Niket: The other question was on the medical devices part of the business which you talked in the annual report. Would it be possible for you to give some flavor on where are we going in terms of tie up some clarity on that will be very helpful.



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- Vellayan Subbiah:** See basically we are going to drive that through acquisition to begin with because we do not have capability internally so we do not really want to comment on it till we first get a specific transaction that we are going to close on so we are still looking.
- Niket:** One more question if I can squeeze in. On the two-wheeler what is the share as a percentage of revenue today because that is one category which does not seem to grow and at least that part of revenue will continue to see maybe lower growth so is there any game plan that we have to maybe add customers or increase the amount of customers?
- Vellayan Subbiah:** I do not think we discuss market share at a product level and we prefer not to. I think we have a decent market share but obviously in all of the products that we are we always are looking at opportunities to expand the market share.
- Niket:** Sure but on the category itself will it be possible to quantify what is the percentage contribution coming from two wheelers.
- Vellayan Subbiah:** Sorry what is the percentage? You are telling how much of our revenues comes from two wheelers is that question.
- Mahendra Kumar:** So if you look at the total TI revenue roughly about 58% comes from auto and within auto it is like generally 50:50 but it keeps varying from quarter to quarter. In Q1 it was like 55% two-wheeler and 45% four wheelers.
- Niket:** And have we started taking orders in electric three wheelers has that already started?
- Vellayan Subbiah:** To your question we have appointed dealership. We have not started taking orders yet and I think we will likely start taking orders in the September time frame.
- Niket:** Okay perfect Sir. Thank you so much and I will come back in the queue.
- Moderator:** The next question is from the line of Nishit Jalan from Axis Capital. Please go ahead.
- Nishit Jalan:** Thank you Sir. Thank you for the opportunity. Most of my questions have been answered. Just one on the engineering segment that segment we have seen very, very strong growth both on Y-o-Y and Q-o-Q basis and you have just highlighted that exports is something which was not very strong in this quarter. We do get auto industry volumes from industry and we have not seen industry wise very strongly so just wanted to understand what is the volume managing growth in this segment and basically have we introduced some more products or are we gaining disproportionately in large dia or



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any subsegment within engineering because obviously we are growing at much much faster pace as compared to auto industry.

Mukesh Ahuja: Like we said earlier there is some amount of gain in shares in the domestic market that is reflecting in the total overall revenue increase also because of the commodity prices the turnover is going up, so it is mixture of two and like we started taking around engineering business, two years back the regional balancing story. We started producing closer to the customers to optimize our cost structure and improve the delivery and the quality which is closer to the customers that is yielding result so it is a combination of commodity prices going up as well as gaining share of business.

Nishit Jalan: Would you be able to share breakdown between volume and value in the engineering segment on a Y-o-Y basis or Q-o-Q basis whatever you are comfortable with.

Mukesh Ahuja: Generally we do not share the breakup but indicated directionally it is a combination of two.:

Nishit Jalan: Sir if I can squeeze in one more question. This has been asked multiple times in one way or other. IPLT on the truck side basically just wanted to understand IPLT has not done much fund raising in the past yet they have come up and developed this 55 tonne a new product as well as retro fit so what is the core advantage competitiveness that IPLT have they mastered any of the specific critical component or is there any technology partner basically how have we gone in terms of building capability that is across different components or vehicle design process.

Vellayan Subbiah: You are right they have done it with very little capital but I think that is what you are going to see happening in India right at least from what we call the brilliance in the IPLT product is that it is very catered towards India used cases right and especially kind of starting with this point to point used cases because if you had a product for example that you try to sell in Europe and US which has 180 km range a heavy duty truck with 180 km range there would not be massive demand for that. The second thing is even getting to 180 km range how you get there the bottom line is because in India there is so much more braking on the highways there is a capability to get a lot more region and actually the thing is though there is no specific for example there is no IP in terms of a component that is very specific, the way the components have been stitched together we think is very intelligent because they have actually been able to do that using sets of Indian component, sets of imported component and bringing it all together in a fashion that I think is economically and just from a physics perspective and from market perspective the right product for India and I think that is what is possible I mean lot of people call or frugal engineering or what you may, but I think that is what is possible to do in India and that is what a lot of the new players are going to start doing so that is we think is kind of good with the way IPLT has done and that is why we see the opportunity.



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- Nishit Jalan:** Thank you Sir. Just one followup and sorry for harping on this. Just contractually IPLT, obviously that think would be very good. If they can do such a innovation with such a small amount of capital do you think there are enough entry barriers in place in these kind of products and if not don't you think that even this segment can get crowded over a period of time and the profit pool may not be big enough because it is critical that they have done such good work with small amount of capital but if there is no IPO or no major competitive advantage then would entry barriers not be low in the segment.
- Vellayan Subbiah:** See the point is this right, I mean if you look at what has happened. If you take the two-wheeler space for example I do not know how many two wheelers there are. There are electric two wheelers but when we last did a sweep I think there were over 80 products that were out there. In heavy duty trucks right now there is only one that is homologated and so are there going to be other guys. I think in every market potentially yes there will be other people but we are also seeing right now what is happening is the whole venture capital space is also drying up, so there are not that many guys who just want to experiment with nothing and in our minds it takes at least three years to get this product right which is how long IPLT has spent on it. I mean IPLT has actually spent closer to five years on this line so in our minds it takes that long to get the product right and so it is not going to be that easy for somebody to just come in and say like listen a piece together a motor controller, a BMS, battery and I will have this going, so we will like the segments we are getting into have higher barriers to entry than kind of the two wheeler of the passenger car which we think will be globally led and therefore that is our belief but there is not telling that we are 100% right on this.
- Nishit Jalan:** Thank you so much. I have so more related questions on this but I will probably take it offline.
- Moderator:** The next question is from the line of Senthil Manikandan from IThought PMS. Please go ahead.
- Senthil Manikandan:** Good morning and thanks for the opportunity so my question is with respect to the EV tractor side so if you can just give an overview about what will be the target aggressive market over the next 3 to 5 years so currently like annually the tractor market side is around 9 lakh units so just overview on the volume and how the market will progress on EV side.
- Vellayan Subbiah:** See I think none of these questions can be answered deterministically right because if I knew how the market is going to progress, every people know. I do not think anybody knows how the market is going to progress or what the actual rate of adoption is going to be. Obviously in our mind it is dependent on how good a product you can get out and which segments you can cover. In our minds four product ranges that have to be caught over there and the initial product range might not cover as much of the market but the largest is going to be that 30 to 40 horse power segment and 40 to 50 horse power so there is one product that is the closest to homologation right now and then there are two more that we will submit within the next six months but the rate of evolution of the market I do



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not think we can kind of state deterministically right now nor do we want to say here is how much our market share is going to be. We just want to focus on being the first to market with our product and ensuring that it is a good product and then capturing the proportionate market share for the product we get into market with so we are going to start with a lower horsepower products and then kind of work are way up.

Senthil Manikandan: Okay Sir thank you.

Moderator: Thank you. Next question is from the line of Sunil Kothari from Unique Investment. Please go ahead.

Sunil Kothari: My question is related with longer term and metro since you turn around Chola and Chola group has proven their capability internally in terms of engineering, services, exports and everything. I wanted to understand the two which we are hearing it China plus one, Europe plus one manufacturing base from India. What products you manufacture whether it is chemical or pharma or engineering lot of things we are hearing and second thing we are hearing people want local manufacturing mall. They do not want to depend on so much deception of this supply chain which we faced during last 2,3, 5 years, so if your advantage point can you elaborate on this opportunity for Chola group from exports point of view.

Vellayan Subbiah: I think if you see our articulation of vertical selection the businesses that we are getting into. They are almost driven by these trends, so basically we honestly think that the whole electric vehicle market in lot of categories including the one we are getting into are going to become kind of fully engaged supply chain over the next 5 to 6 years, so that is why EV we want to understand how can we make motor controllers but all of these areas were India has so much capability today. Similarly if we talk about the reasons we are getting into electronics and medical it is the same thing right China plus one, so even if they take something like Moshine everybody wants Indian supply for mobile phones. Right now almost all of the mobile phone components are imported from China I say excess of 95% of mobile phone components come from China. Over the next decade that entirely supply chain has to be developed in India so we need to think of that is going to happen. Similar with electric vehicles the entire supply chain needs to develop in India. Indian OEMs need to emerge so how is that going to happen and even with medical though there is going to be a large Indian market with all these three products we are convinced that if you develop the Indian market that will form a strong base for allowing us to get into other markets like the European market, American market especially and that is very similar to what we have done with Tubes in engineering where we developed for the Indian market first and now we are beginning to push 20% exports and then we will push to 50% of exports over the next 5 to 6 years, so basically it is a very similar story and we have identified a set of verticals which we think at least over the next 15 years give us significant opportunity first to establish a base on the domestic market and then use that base as a mechanism of getting out along



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this kind of what we think is going to be very broad China plus one trend over the next 15 years as well.

Sunil Kothari: Sir basically other than your internal capability which already we have proven you see external tailwinds is also helping us in terms of this manufacturing products, mechanical products, engineering products bigger parts. There is a good tailwind.

Vellayan Subbiah: Undoubtedly and I think this tailwind is really going to be very significant in India for the next decade.

Sunil Kothari: Great Sir. You are doing commendable job. Wish you good luck. Thanks a lot.

Moderator: Thank you. Next question is from the line of Vipulkumar Anopchand Shah from Sumangal Investment. Please go ahead.

Vipulkumar: Hi Sir congratulations for great set of numbers. My question is on the heavy truck side we will be launching only one model that is 55 tonnes or we will have entire range starting from 10 tonnes to 55 tonnes?

Vellayan Subbiah: So right now there is only one model that is homologated that is 55 tonnes so we will be focused on getting that to market first that is our focus right now and then over time we will have to develop but right now there is only one market.

Vipulkumar: Can you comment on the cost advantage in terms of percentage?

Vellayan Subbiah: So what we are seeing is payback time of two and half years on this truck for the used cases that we are looking at right now more than that we do not want to share but we are seeing a payback time of two and half years.

Vipulkumar: Two and half years of payback time.

Vellayan Subbiah: Yes.

Vipulkumar: Okay Sir thank you and all the best.

Moderator: Thank you. Next question is from the line of Abhishek Singhal from Naredi Investments. Please go ahead.



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Abhishek Singhal: Good morning Sir. Before asking question I have small suggestion you will give investor presentation with your result then it will look good for smaller investors like us. First question year to year margin and opportunity in power business has decreased then what will be the margin in FY2023 and second question is how much turnover will come from electric truck and electric tractor this year and have started producing them.

Vellayan Subbiah: Let me answer your second question. So the numbers from electric vehicle sales in this financial year are not going to be so significant so we do not want to give any numbers at this point in time and we have seen revenue numbers ramping up only from next year from the April timeframe though we will have some revenue this year it is not going to be significant. Your first question if you could just repeat that.

Abhishek Singhal: Year to year margin and if you could just repeat that here in power business has decreased.

Vellayan Subbiah: You are talking about CG?

Abhishek Singhal: Yes, then what will be the margin in FY2023 if same as June 2022 Q4 last year.

Vellayan Subbiah: Power you can actually kind of look at as the same margin number that we kind of reported in the first quarter it might improve a bit but not significantly. Mobility Mukesh do you want to give a perspective. Question is on margins. I think margins also will remain similar to what they have been in the first quarter right it could improve a bit but not much.

Abhishek Singhal: Thank you.

Moderator: Thank you. Next question is from the line of Vinod Malviya from Union Mutual Fund. Please go ahead.

Vinod Malviya: Thank you for taking my question. I am extremely sorry for harping again on IPLT. So I have couple of questions of IPLT. First as you rightly said that this product has been there in the market for the last two years and whatever regular reason we came across on and has been very good. Just wanted to understand both from a company point of view and from the use case point of view what are the current challenges which is there, is it that the total cost of ownership is very high over here compared to the existing CV and even from an operational point of view for the existing old promoters what was the challenges and why they have completed OEMs I just wanted to understand the thought process over there.

Vellayan Subbiah: First of the promoters have not completely exited. They are still there with a significant kind of portion of the share and they are integral to kind of the future of this company so they are



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significantly they are with us in the entire process and Subodh is basically leading the company going forward. Your question was all of the reviews are positive what are the challenges is what you are asking, so I think there are two questions it is basically working capital and then capital required to kind up set up a new facility so it is very tough from a working capital perspective to continue to produce these trucks which were expensive and then the company did require capital to set up a new facility which we will be kind of putting in as well.

Vinod Malviya: As per used case is concerned when we do a comparison between a normal commercial vehicle and an electric commercial vehicle there is absolutely no disadvantage and to your normal feedback which you are getting on this product.

Vellayan Subbiah: I mean obviously kind of you will lose some of the payload because of the weight of the battery that is purely downside.

Vinod Malviya: And clarification on the previous answer that you said you plan to expand capacity are you giving the numbers as what kind of capacity addition happening in the next one and half years or what kind of investment you want to make.

Vellayan Subbiah: We do not want to state that yet right. It is still early days so we do not want to state that.

Vinod Malviya: Thanks. That is all from my side.

Moderator: Thank you. Next question is from the line of Ankur from Future Investments Private Limited. Please go ahead.

Ankur: Thanks for the opportunity. Sir can you please share some guidance on the revenue and the margin side for the next 3 to 5 years.

Vellayan Subbiah: Sorry you just want broad guidance on revenue and margin for the next 3 to 5 years.

Ankur: Yes right.

Vellayan Subbiah: I do not think we give any broad terms like that. I think broadly what we have articulated around the four metric continue to kind of hold which is revenue, see again revenue growth we have always said that you have to look at it at a consolidated level so broadly on those four items we continue to hold what we have articulated from the beginning.

Ankur: Do we see the margins going up?



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- Vellayan Subbiah:** We have said that also which is in the next 3 to 4 years yes we will expand margins as well.
- Ankur:** Okay great. What kind of market share are we aspiring to capture in the next 5 years in the EV?
- Vellayan Subbiah:** I think it is very difficult to tell at this stage. Nobody even knows how many products are going to be out. What percentage of conversion to EV is going to be so it is a very difficult number to give right now.
- Ankur:** Okay thanks and all the best.
- Moderator:** Thank you. Due to time constraints we have reached the end of question-and-answer session. I would now like to hand the conference over to the management for closing comments.
- Vellayan Subbiah:** Anupam nothing specific from our side. Thanks hopefully we have answered most of the questions. We continue to be very optimistic about the long term. I think quite a few questions were superficially on what market shares we will be able to get on some of this new segments. I think it is more difficult to state deterministically right now, but our focus is on building for the long term and we continue to be very bullish from that perspective.
- Moderator:** Thank you. On behalf of IIFL Securities Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.