“Tube Investments of India Limited

Q2 FY ‘23 Earnings Conference Call”

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

Moderator: Good morning, ladies and gentlemen and welcome to the Q2 FY '23 Earnings Conference Call of Tube Investments 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand over the conference to Mr. Anupam Gupta from IIFL Securities Limited. Thank you, and over to you, Mr. Gupta

Anupam Gupta: Yes. Thanks, Michelle and welcome everyone to Tube Investments Q2 '23 Conference Call. From the management we have; Mr. Vellayan Subbiah, the Executive Vice Chairman; Mr. Arun Murugappan, who will join us in a bit, who is the Executive Chairman; Mr. Mukesh Ahuja, Managing Director, he's already connected; Mr. Meyyappan, who has taken over as the CFO for the company; Mr. KR Srinivasan, who Heads the Metal Formed Products business; and Mr. KK Paul, Managing Director TI Clean Mobility Private Limited. We also have Mr. Murali, who Heads the Engineering business for TI and a few other members.

I'll hand over to the management for the opening comments, post which we can have a Q&A. Over to the management.

Mukesh Ahuja: Yes. Thank you, Anupam. Good morning, everybody. Mukesh Ahuja on this side, just to share you the commentary of Q2. The Board of Directors of Tube Investments of India Limited met on 4th November and approved the financial results as follows. Standalone results for the quarter. Revenue in Q2 was at INR 1,906 crores compared to INR 1,667 crores of the same period previous year. PBT after exceptional item was at INR 202 crore as against INR 164 crore in the same period previous year.

Exceptional item of INR 23.45 crores represents impairment provision in respect of investments made in Sri Lankan subsidiaries due to the current market conditions and ongoing economic crisis. ROIC annualized at 56% for the quarter ended 30th September 2022 compared with 48% in the previous year same period. Free cash flow for the quarter was at INR 119 crores.

Details of the businesses. Engineering, the revenue for the quarter was at INR 1,192 crores compared with INR 1,027 crores in the corresponding quarter of the previous year. Profit before interest and tax for the quarter was at INR 165 crore against INR 102 crore in the corresponding quarter of the previous year.

Metal Formed products, the revenue for the quarter was at INR 371 crores compared with INR 328 crores in the corresponding quarter of the previous year. Profit before interest and tax for

the quarter was at INR 48 crores against INR 39 crore in the corresponding quarter of the previous year.

Mobility division. The division has registered revenue of INR 226 crores during the quarter compared with INR 262 crores in the corresponding quarter of the previous year. Profit before interest and tax for the quarter was at INR 10 crore compared to the INR 20 crore in the corresponding quarter of the previous year. And other businesses.

In the Others segment, the revenue for the quarter was at INR 188 crores compared to INR 120 crores in the corresponding quarter of the previous year. Profit before interest and tax for the quarter was at INR 8 crores against INR 12 crores in the corresponding quarter of the previous year.

During the quarter, the company acquired a 76% equity stake in Moshine Electronics Private Limited on 23rd September 2022. Moshine is a company engaged in the manufacturing of camera modules for mobile phones. As a part of its strategy to pursue opportunities in clean mobility, the company's subsidiary, TI Clean Mobility Private Limited, acquired a 65.2% equity stake in IPLT on 21st September 2022. IPLT is a manufacturer of electric heavy commercial vehicles.

Consol results. TI's consolidated revenue for the quarter was INR 3,789 crores as against INR 3,263 crore in the corresponding quarter of the previous year. Profit before share of profit/(loss) of an associated/joint venture, exceptional items and tax for the quarter was at INR 439 crores as against INR 294 crores in the corresponding quarter of the previous year.

CG Power and Industrial Solutions, a subsidiary for where the company holds 58.05% stake, registered a consol revenue of INR 1,707 crores during the quarter as against INR 1,469 crores in the corresponding quarter of the previous year. Profit before tax for the quarter was at INR 241 crores as against INR 144 crores in the corresponding quarter of the previous year.

Shanthi Gears, a subsidiary company in gears business in which company holds 70.47% stake, registered revenue of INR 109 crores during the quarter as against INR 72 crore in the corresponding quarter of the previous year. Profit before tax for the quarter was INR 23 crores as against INR 11 crores in the corresponding quarter of the previous year.

Commenting on the financial results, Mr. M.A.M Arunachalam, known as Mr. Arun Murugappan, Executive Chairman, Tube Investments of India, the result of the company reflects the stability of its businesses, delivering strong results in the wake of continuing economic challenges viz. high inflation and looming recession globally. Engineering, metal forming products and industrial chain divisions performed very well in the domestic market but faced challenges in the exports business.

Mobility division had a lower profit due to shrinking of volumes in the industry. The company expanded its footprint in the clean mobility ventures through acquisition of IPLT, a manufacturer

of electric heavy commercial vehicle trucks through its subsidiary TI Clean Mobility Private Limited, the quarter also witnessed the commercial launch of the electric 3-wheeler in September 2022. The performance of the subsidiaries CG Power and Shanthi Gears has been consistent, delivering strong performance and profitability across the company. Thank you.

Vellayan Subbiah: Yes. With that, we'll be happy to turn it over and take Q&A.

Moderator: [Operator Instructions]. The first question is from the line of Jinesh Gandhi from Motilal Oswal Financial Services.

Jinesh Gandhi: A couple of questions from my side. One is on the Engineering business, are we seeing any moderation trend on the export side like many of our peers are witnessing or are exports continuing to do very well?

Mukesh Ahuja: Yes. Murali would you like to take this question.

Murali: Yes. On the export side, because of subdued demand and the stock pileup, it is -- all the customers are trying to liquidate the stock and they are correcting the stock. And we hope in the coming quarters, the demand will pick up once the stock has come to a normal level.

Jinesh Gandhi: And also at the broader Engineering and Metal Formed business, have we started to see moderation in commodity prices for us and in turn pass-through that's happening to customers or that is -- we are yet to see that phenomena?

Murali: Mukesh, you would like to answer?

Mukesh Ahuja: Yes. commodity – like you rightly said, commodity prices are softening and as you are already aware, we have arrangements with all the customers on the increase as well as decrease. We have a fair amount of agreements in place. So that will be concluded accordingly.

Jinesh Gandhi: So this quarter, we will then see some moderation in growth also because of commodity prices pass-through, right?

Mukesh Ahuja: Those commodity prices softening trend has just started and we have yet to see the phenomena of price reductions taking place. I'm sure maybe coming quarters, we will see that. And then we'll settle it with the customers as well with suppliers accordingly.

Jinesh Gandhi: And thirdly with respect to the export business on -- given that the rupee has been depreciating, are we seeing benefit of that, and that is the reason why our margins in the Engineering business and Metal Formed business have expanded materially, is that the only -- or the major lever of margin expansion?

Mukesh Ahuja: Margin expansion in engineering businesses, there was a pending settlement with the customers as well as suppliers. So onetime settlement has happened for this quarter and we see that maybe

margins have gone up in the Engineering business as well as MFPD. But on a steady-state basis, whatever margins we are making, that will continue in future also.

Jinesh Gandhi: And was there any benefit of currency as well in this quarter or that will again in the coming quarters?

Vellayan Subbiah: We couldn't hear you, Jinesh.

Jinesh Gandhi: Sorry. Was there any benefit of weaker rupee in this quarter or do you expect that to come in coming quarter?

Mukesh Ahuja: So that is surely going to like Murali said, that weakening rupee is going to support exports going forward, so we are also in discussions with all the OEMs and distributors in the exports business and going forward, we expect the businesses should improve in exports.

Moderator: We have the next question from the line of Abhishek Ghosh from DSP Mutual Funds.

Abhishek Ghosh: Sir, just a couple of questions, is the entire gross margin improvement that one has seen in the current quarter is due to that onetime settlement or is there some amount of steel prices have corrected, there is some benefit of that as well?

Mukesh Ahuja: So it's a combination of onetime settlement, as well as we improved the share of business as well as the weakening rupee. It's a combination of all. And we are confident that we steady state whatever we were maintaining at that level.

Abhishek Ghosh: And sir, the other thing is steel price, you have seen much sharper decline, while the commensurate revenues have been, if one looks at it on a sequential basis, have seen very marginal decline. So if you can help us with volume growth, that will be helpful, sir?

Mukesh Ahuja: We have both projected volume growth of about 20% in Engineering division and about 12% in MFPD and Cycles business, so there is a decline in the volume. This is the majority of the change.

Abhishek Ghosh: And sir, just one last question. In terms of if you look at the overall cash flow as far as consol is concerned, standalone, you're clocking almost about INR 500 crores, INR 600 crores of cash flow at this point in time and on a consol basis, the cash flow is in excess of INR 1,000-odd crores. So how should we look at the capital allocation perspective from here on, given the cash flow generation is very strong and given that all those adversities in terms of crisis and other things seems to be behind? So how should we look at going forward, when there is so much of cash flow generation, how should one look at the capital allocation, if you can help us with that?

Vellayan Subbiah: So Abhishek, I think kind of directionally, we've been steering and kind of been indicating how are kind of using this, and nothing is changing with that approach, right? So broadly, when you look at the consol cash flow, I mean like basically, the cash flow, it should still be TI and CG as

two independent entities. Obviously, I don't want to make any forward-looking statements, but kind of both companies have a dividend policy.

So the way to look at TI is that, TI has its own cash flow plus any dividends it may receive from CG, right? And then what we've kind of articulated in CG is that CG -- sorry, dividend it may receive from CG and Shanthi and what we've articulated is that CG might start pursuing its own CG-1, CG-2, CG-3 at some point in time, right?

So then you have an amount that comes to TI, which is basically TI's own free cash plus the dividend it may receive from those two entities. Using that, we've been able to articulate about how we're deploying that free cash, and that is to kind of drive the growth in the new ventures, either be it -- I mean, now it's shifted a bit more to TI-2, whether it's kind of like, we've been kind of fairly active in the electric vehicle space. We've announced 2 or 3 sectors that we're quite interested in, that's where most of the capital will continue to get deployed.

And the principles kind of continue to be the same principles that we've articulated for at least the last three years in terms of how we will deploy the capital and the amount of debt we'll be willing to take and all of that. So, nothing's changed in that respect. So we're deploying the capital basically towards these new businesses and the growth in the new businesses.

Abhishek Ghosh: So sir as you have seen your large part of the capital and you've seen that TI-2 that has now gone into EV in last one year or so, but you also made some small acquisitions in electronics and medical. So incrementally from here on, should we expect that -- the thrust to move towards those two new sectors as well? Is that the right understanding, just looking at the opportunities available?

Mukesh Ahuja: Yes. I think that is fair. Yes, I think that's fair. That's fair.

Moderator: We have the next question from the line of Anika Mittal from NVEST Research.

Anika Mittal: Sir is there any update regarding acquisition or foray into medical device segment?

Mukesh Ahuja: Yes. So like we've said, we already kind of discussed it. I mean, there are potential kind of targets in the pipeline and in that business. We'll only discuss it once we have something definitive to talk about.

Moderator: We have the next question from the line of Nishit Jalan from Axis Capital.

Nishit Jalan: I have two questions. Firstly on the new EV businesses, if you can give us an update in terms of the time line of launches that we are looking at, especially on the tractor and the truck side? And what kind of response you have got for 3-wheeler electric vehicles that you have launched and any details in terms of distribution network that you have set up, capacity and the monthly production that you are looking at? So first question is a broader question on the EV portfolio that we are looking to create?

Second question is a follow-up. On the Engineering segment, you mentioned that there was a onetime settlement which was done. So just wanted to understand, so there will be a lot of amounts which will pertain to the previous quarter's price increases that would have come in this quarter also. So just wanted to understand what is that number so that we can understand what is the underlying profitability for this quarter, which may be more sustainable.

Vellayan Subbiah: So first on EV, so just to give you a sense, like the response on 3-wheeler has been very positive. I think there were a lot of good feedback both on traditional and on social media channels. So I think the proof of the pudding is really kind of what's going to happen in sales and profitability. So that we will start sometime in December basically, we will start selling vehicles in the market.

And so just your question on distribution, we've started off with 40 dealers and that is -- we want to keep it tight in the beginning. We've had tremendous interest and potential new dealerships. But we're basically going to keep it tight in the beginning, kind of drive our sales through 40 dealerships and then look at a broader expansion based on the success and ensuring that we get the model right with the first 40 dealerships. So that is on 3-wheeler.

The second launch will actually be on the heavy commercial vehicle where basically, we will start selling limited number of trucks, right, maybe like 30 a month or so in the next -- I would say, actually starting again in December, we should start selling about, between 30 and 50 trucks a month. There also has been tremendous response in terms of the interest in the product.

There, it looks like we will be a bit more supply constrained initially. We are working on a new facility that we hope to be ready in the first quarter of 2024 – financial year 2024, I mean. The -- and therefore, we might have a more formal launch in the final quarter of this year, once we know that we're going to be able to produce at such higher volumes, that is for this thing.

And then tractor, we're really anticipating kind of a launch either in the last quarter this year of the smallest tractor, right? So kind of -- we'll basically start off with what I would think of as a very small tractor, which has very niche use cases, right? And that might launch either in the last quarter of -- I mean, it might push to first quarter of 2024 again. So those -- that's when kind of we're basically looking at launches for these three products, financial year 2024, right?

And – which will basically mean April, May, June, it might be at this point. But -- so that's basically kind of what we're looking at for time line, that was on electric. You also had a question on -- sorry, engineering, the question. We already answered that question basically. I think you're asking more specifically for what is an amount that you can use as PBT to sales for engineering. I don't think we'll give guidance to that specific level.

In general, like we've told you, we've told you where we are going on each of the businesses, right, which is like we want to push them over a three-year time frame to a higher number than we are today. So some of that evidence you're seeing playing out, but there's still more work to be done there.

Nishit Jalan: Sir, I was not asking for a specific guidance, I was just asking for this quarter what...

Vellayan Subbiah: You're asking exactly how much is attributable to the onetime settlement, which is in a sense asking the same thing, right? That's why I'm saying, we're not going to give kind of exact numbers saying, yes, how much is kind of due to the onetime side.

Mukesh Ahuja: Actually, we mentioned that it is a function -- not a function of only customer and supplier's settlement. It's a combination of probably, let's say, rupee weakening and we gained some share of business and some mix improvement. So it's a combination of three, four things which has resulted to this. Just we updated in the last quarter.

Moderator: We have the line of Mr. Nishit Jalan again connected. Mr. Jalan please proceed with your question.

Nishit Jalan: Sorry, I got disconnected. I don't know if you answered the question. So my only point I was trying to ask was, what was the number in this quarter in terms of price increases that we got from previous quarters? I was not asking for any forward guidance. So that is the only point I was asking if you can answer.

And secondly, I have a follow-up on electric vehicle launch. Like you talked about electric trucks, we are looking at 30 to 50 units per month, any such target or what kind of numbers would you be looking at electric 3-wheelers? And I would assume that initially, you are starting with the southern states. So, all the dealers, party dealers are pertaining to southern states. Is that understanding correct?

Vellayan Subbiah: So again, we won't give specific guidance on what we're looking at for electric 3-wheelers. Basically, this is going to be a very -- it's a very different product from the trucks and so it will depend on what kind of consumer demand we see. To your question on which states, I think you asked was the second part of your question, Nishit, Paul, can you just kind of answer which states we are going to initially?

KK Paul: I think initially, we are going to around the southern states of Tamil Nadu, Kerala, AP and Telangana. These are the four states that we are planning. And gradually, as we move into the first quarter of next year, then we will be looking at different – other states as we move forward.

Vellayan Subbiah: So Nishit, hopefully, that answers both your questions.

Nishit Jalan: Yes, thank you so much.

Moderator: [Operator Instruction] The next question is from the line of Aman Agrawal from Carnelian Capital.

Aman Agrawal: Just one question from my side. So on this -- if I see this Mobility segment, so between a standalone and consolidated statement, there is a charge of INR 24 crores, so just wanted to

understand what this is relating to? Is it relating to our EV initiatives that we are spending right now? And just an idea like how this could move in the future?

Vellayan Subbiah: Yes. So we talked about that. That is for the Sri Lankan subsidiaries.

Aman Agrawal: No. Sir, I'm not talking about the extraordinary charge, I'm talking about the profitability of the mobility business?

Vellayan Subbiah: Mobility, are you talking about clean mobility or are you talking about...

Aman Agrawal: Sorry. If I see a standalone statement, you have...

Vellayan Subbiah: Yes. Okay. One second, Meyyappan will answer it.

Meyyappan: Yes. This is Meyyappan. Yes, actually, I think you were asking about the mobility segment profitability and on standalone and the consolidated, why it is different? Okay, that includes the TICMPL also, TI Clean Mobility. TI Clean Mobility has incurred a loss in this quarter, that's why that got adjusted in this segment, that's the difference between them.

Aman Agrawal: And sir, this is relating to the 3-wheeler business, right, the consol charge?

Mukesh Ahuja: Okay. I'll tell you what. I think to kind of -- I understand where your confusion is coming from, Aman. So, what we will look at is we look at kind of whether we separate our mobility and clean mobility into two kind of separate kind of tracks, segments because that might create confusion in the future. So I think that's fair. We'll kind of think through that in our report.

Moderator: We have the next question from the line of Jeetendra Khatri from Tata AMC. Please go ahead.

Jeetendra Khatri: Sir, I wanted to know what would be your possible market share in some of the key large divisions of business, if you can share that, like tube products or auto chains or fine blanking?

Vellayan Subbiah: Yes. We've not shared kind of specific market share data in anything. I mean, we have fairly good market share positions in our businesses, but we've not shared specific numbers in it.

Moderator: We have the next question from the line of Sonal Gupta from L&T Mutual Fund. Please go ahead.

Sonal Gupta: So just wanted to understand in terms of the EV. On the EV side, I mean, given that you've seen a very sharp spike in battery commodity prices and they will seem to be still going up, I mean, how are you looking at the sourcing and procurement process? And overall, does that change the equation and economics for you?

Vellayan Subbiah: Yes. I think that's a great question, right? Basically, EV, back days it used to be 40% and now 50% of kind of the cost of these vehicles pretty much and so that's actually where we've been spending a fair amount of time. Right now, like you probably know, most of the cells kind of

end up coming from China, though there are more expensive manufacturers in Japan and Korea as well.

So what we're kind of thinking through there is more of a longer-term strategy in batteries whether we have to -- clearly, the cells is not a business that we are kind of interested in. And I think the track for cells is going to be that currently, all the cells are getting imported in India. With the PLI that has gotten announced and Reliance and a bunch of others that want that PLI, it looks like there will be cell manufacturing capacity that comes to India in the long term.

And we're beginning to kind of work with some of those partners as well, so that they can be long-term suppliers of cells for us. Then beyond the cells, we've got backing in the BMS and those are areas where currently we are outsourcing, but we do believe that we will need to develop capabilities over time.

So that's something that we've started investing in from an R&D perspective, so that we understand what the capability to bring -- because definitely, that's going to drive compared, like you correctly said, whether guys win in EV or not is going to be driven by their battery cells. Battery is 50% of the cost, and it drives a huge competitive advantage.

So then if you break down the battery strategy, as far as we're concerned, it's how effectively can we source the cells, which is one area we're very focused on. Both basically by developing a lot more capability for it in China. And currently in China and then obviously, kind of that has a transition to India over the medium term.

And then kind of working on the technology, which we currently outsource for packing and for BMS and whether we bring those two in-house, I think it's a valid question that we will be able to answer more articulately for each of the product lines within the next, I would say, three to six months.

Sonal Gupta: So what I was trying to understand is that, given that initially, I mean, I do understand that, I mean, like getting into cell manufacturing is a completely different ball game and anyway, that was not my question. I'm just trying to understand like, given the increasing price of cells, do we -- I mean, like is that changing your business plan a bit or you still see the TCO is sort of very favorable?

Vellayan Subbiah: No, there's no change in business plan because commodity prices are increasing. I think that will continue to kind of happen through the cycle. But if you take look at it, in the same point that commodity prices are increasing, kind of fuel prices are increasing as well, right? So actually, when you begin to look at these things from a TCO perspective, there's not too much of a difference in the math. If you are planning on kind of doing something at a cost of diesel of INR 80 and now it's INR 100, obviously, kind of that changes your benefits that you get from a transition to EV as well. So I would say that you can't just look at commodity prices for batteries in isolation. And as a result, it doesn't mean kind of any significant changes in our plan.

Sonal Gupta: And just related to that, sorry, I'm not sure if there is any FAME subsidy for like heavy commercial vehicles or tractors, etcetera. So...

Vellayan Subbiah: Basically, these are conversations we have started with the government. And it's kind of curious to us also why there's no FAME for heavy commercial vehicles. We're in active conversations with the government on this, right. Because obviously, the government also kind of agrees that -- I shouldn't say the government agrees, because that's just a very broad-brush statement. But I'm just saying kind of there's general openness to discussion on whether there should be FAME for heavy commercial vehicles and tractors. So both of those are conversations that we are in the government with -- we're having with the government right now.

Sonal Gupta: And on the 3-wheelers, you will be -- I'm not sure, you will be compliant and you will get some FAME subsidy, right?

Vellayan Subbiah: Yes. So 3-wheeler, we will get FAME.

Sonal Gupta: That's about, what, INR 15,000 per kilowatt? Or I mean, that's for the 3-wheeler, Actually, INR 10,000.

Vellayan Subbiah: Do you know what it is per kilowatt? I thought it was INR 10,000 per kilowatt. I know it's INR 10,000. Is it now INR 15,000 per kilowatt?

Sonal Gupta: No, that's for 2-wheelers, sorry, my bad.

Vellayan Subbiah: Yes. It's INR 10,000 per kilowatt.

Moderator: Thank you. We have the next question from the line of Vinod Malviya from Union Mutual Fund. Please go ahead.

Vinod Malviya: Sir, I just had one question. You've given a very good road map for your 3-wheeler electric vehicle side. Can you also give a comment, I mean, what kind of capital commitment you are planning to make on the 3-wheeler electric side, Do you have per truck and the tractor side over the next one year?

Vellayan Subbiah: Yes. So I think the capital commitments, we've kind of articulated what the first go-around was, right? So for 3-wheeler, let's say, quite a bit of the capital has already been incurred. So I think on the specific numbers, we might give better guidance in the next three months. But a large part of the capital has already gotten incurred. So for both 3-wheeler and for tractors, because there is factory build-out, some of it is required for tractors. And for 3-wheeler, the factory build-out obviously is complete, and we're starting production fairly quickly. But we will give you more specific numbers in the next earnings call.

Vinod Malviya: And on the truck side?

Vellayan Subbiah: That's what I'm saying. The truck, the factory build-out, there's the first factory we're building out. So we'll articulate a clearer strategy in terms of what we're doing with the first factory, how much capacity we're going to build there and how that capacity build is going to look over time in the next earnings call.

Moderator: Thank you. We have the next question from the line of Abhishek Ghosh from DSP Mutual Fund. That would be a follow-up question. Please go ahead.

Abhishek Ghosh: Sir, just a couple of things just read through from the annual report. You've mentioned that you're looking at products for the import substitution and expansion of geographies. So just was curious to understand this import substitution. You're referring to the auto segment itself. Or is it like across multiple sectors? How should one look at it, just to understand the market size opportunity from that perspective?

Murali: Basically, import substitution, we're looking for Engineering division, in the tubes as well as CRSS business. Because we have studied and we find that a lot of special strips as well as some tube segments are getting still imported in the country. So we are working on how to substitute that particularly in TII.

Vellayan Subbiah: And the broader thing on import substitution has also been most of the TI-2 strategy is driven by that. If we take medical, we take electronics, all of these things, that whole strategy is driven by these kinds of things.

Abhishek Ghosh: Got it. I was -- yes, I was trying to understand, is it only related to that? Or is it beyond that also? Is it more related to the current import that you already do in TI-1? So that's helpful. Sir...

Vellayan Subbiah: Yes. So that's why like KK said, it is TI-1 also. So everybody is doing it because it's the same thing.

Abhishek Ghosh: Sir, the other thing is, if you look at broadly, again, in the annual report, broadly, what we understand is you've put probably three to four newer factories both in Engineering Division and the Mobility division. But TI-1 seems to be coming back in terms of overall volume growth. Now things having stabilized, Engineering division is already at 20% of exports. So you think at some point, the TI-1 capex will also be -- have to be ramped up significantly? Is there a thought or a strategy in mind?

Vellayan Subbiah: Abhishek, I don't know if there's a problem with us, but we seem to be...

Abhishek Ghosh: Okay. So where I was coming from, sir, that you have put about, I think, three to four newer factories or -- in both in terms of Brownfield and Greenfield in the last one, and one and half and that should drive some amount of growth. But now I think that TI-1 seems to be stabilizing well because auto numbers are coming up well, your export piece is doing well, Engineering, you're almost doing 20% of exports now, which was sub-10% a few years back. So you think

that TI-1 capex also needs to be increased from here on, was my question. Until now, you were more focused on...

Vellayan Subbiah: Yes. So Abhishek, yes, TI-1 capex is going up. But when we think of the free cash we're generating, that free cash, it is after TI-1 has incurred its capex, right? So we always think of the free cash at the parent company level. As you -- we put away the fact that this much is required to drive the growth in TI-1 itself, and that is already included in kind of the cash flow the company has to generate. So Engineering, for example, as we generate that free cash after investing in the capex that's required for its own growth.

Abhishek Ghosh: So -- and do you think -- whatever they will generate extra cash flow will keep flowing back into the business. That's the way you're looking at each SBU.

Vellayan Subbiah: Correct.

Abhishek Ghosh: And sir, just one last thing. If you can help us understand, with the status of the lean program which you have started, have you already started to see benefits of that in the numbers or going forward? Just some thoughts there will be helpful, sir.

Mukesh Ahuja: Yes. We started this journey about maybe, let's say, nine months back. And we are able to see the initial benefits getting -- cropping up. But I -- we feel as a company, it's a long way to go because it's an exercise which is -- we should feel about three years exercise, which is basically a cultural change in how do we push down the responsibility at the last level in the organization by becoming more and more lean in terms of the way we operate. So the journey is continuing, but initial benefit has already started flowing in, which is reflected in the results also.

Moderator: Thank you. We have the next question from the line of Niket from Motilal Oswal AMC. Please go ahead.

Niket Shah: I just joined a little bit late, so I'm not -- Vellayan, so just two questions. One is if you can just talk a bit on the financing part for the EV vehicles. How will that ecosystem really work for all the three verticals, which is tractor...

Vellayan Subbiah: Yes. Okay. Niket, so thanks for the question. Sorry, did you have more to the question, Niket?

Moderator: Sorry to inform you, sir, the line has got disconnected for Mr. Niket. If he gets connected again I'll take him in the queue, sir. We'll move on to the next participant. The name is Mr. Prithvi from Unifi Capital.

Prithvi: Sir, I just have a couple of questions. In the first question, on the EV side, at what revenue level will the company reach breakeven?

Vellayan Subbiah: EV, so I would think of it as kind of -- each of the individual businesses will start breaking even at different points in time. I would think that we've got to get to -- so it's obviously kind of -- I

think the tractor is a bit kind of difficult to predict right now. But trucks, I would think that it will be in -- just a bit over kind of INR 1,000 crores a year is where trucks would break even. And for the 3-wheelers, yes, I think the number could be similar, kind of, I think, somewhere of INR 1,000 crores a year.

Prithvi: Okay. That's helpful. And just on your new segments, electronic devices or medical equipment that company is planning to enter. So let's take a 5-year view. Any rough guidance on how much the new segments can be at consol revenue level?

Vellayan Subbiah: Now I don't -- I think it's too -- it doesn't make sense to give projections kind of on a 5-year view. But let's start with the businesses. We don't want to put undue pressure on those businesses also to kind of build an expectation like that. We have some ingoing hypothesis, but we don't want to give any guidance on what that could be. First, let the businesses start, then we'll look at it.

Moderator: Thank you. We have the next question from the line of Anupam Gupta from IIFL Securities Limited. Please go ahead.

Anupam Gupta: Yes. So firstly, if I see Engineering and Metal Formed Product business in this quarter, so Engineering saw a Q-on-Q decline, whereas Metal Formed saw a Q-on-Q improvement. And I think there was some PV obviously, which played a role. But have you seen railways kicking in, in this quarter? Or is there still some time that railways will come up for you in Metal Formed?

Mukesh Ahuja: Anupam, it's yet to kick in. Your observation is right. And coming quarters, we are expecting that will kick in.

Anupam Gupta: Secondly, Vellayan, can you talk about what's happening on the optic lens business, what's the progress there and what sort of results have come out from the initial testing which you were doing?

Vellayan Subbiah: Yes. I wish to say it's slow and firm, slower than we expected. We have started basically -- now we're working on -- there was a little bit of first customer that we basically kind of have started production. We've got, I would say, four out of six processes validated. So we're still kind of validating a couple more processes before we can start scaling out any production with them. Clearly, the learning curve in the business is higher than what we expected it to be, but we're still on it. I would say that my sense is it's taking more time than we expected, for sure.

Anupam Gupta: And just continuing there, is there any way that this can be integrated with the Moshine thing which you have acquired? Is there any sort of integration possible there?

Vellayan Subbiah: So in a sense, like management and leadership wise, yes, there will be integration. But in terms of the operations, I mean, like basically, it's two very different things, right? So kind of – Optics are glass lenses. Moshine predominantly is for the mobile phone so they use plastic lenses. And what we will do -- so that's the first segment. So kind of -- it's not like this product -- the output

of this product goes into Moshine, right? So that's not the case. These are glasses, and that's plastic. And the second is that over time, there can be integration that will kind of happen. But I don't think that, that's kind of anything in the near term. Next like the year or 2, that's not going to happen.

Anupam Gupta: And just one last question on the heavy commercial vehicles. So since that you are -- since you will be very close to launching, how does your product compare with a similar ICE product, let's say, in terms of tonnages and distance -- not distance, tonnages, basically? How will it compare in terms of pricing and other features? And secondly, do you see significant competition also coming in the EV side? Are you seeing some sort of testing already at homologation stage or by other players?

Vellayan Subbiah: So in terms of the second question, as far as our understanding is that there does not seem to be too much that's at homologation stage right now, especially on the very heavy trucks, right? We can't see too much of that there. And your second question in terms of -- see, basically, you'll have to look at it at a TCO -- from a TCO perspective, right, because the math is going to be -- we're obviously going to be much more expensive than the ICE trucks of similar tonnages.

So -- but the math is all going to be driven by TCO. And I would just say from TCO, the math is fairly compelling as far as we can see. And initial conversations with customers also, they seem to agree. So it's going to be driven more by TCO discussion. I don't want to get into kind of what will the product pricing be at this stage. But obviously, it's just kind of -- suffice it to say that it's going to be significantly higher than the ICE price.

Moderator: Thank you. We have the next question from the line of Vipulkumar Shah from Sumangal Investment. Please go ahead.

Vipulkumar Shah: Sir, in the truck business, we'll be mostly in the medium and heavy trucks only or we'll be introducing entire range of ICV and LCV also?

Vellayan Subbiah: The stated strategy at this point is that we're in medium and heavy commercial vehicle.

Moderator: Thank you. We have a follow-up question from the line of Rajrishi from DCPL. Please go ahead.

Rajrishi: I just wanted to ask, you've done a fantastic job with the acquisition of CG Power and the kind of opportunities it's perceived in electronics, mobiles and medical devices, etcetera, which you have also elaborated about. Like what I understand is you issued the shares to investors. You did a placement and that was funding the acquisition of CG Power. So you have anything of that in -- as a strategy?

Vellayan Subbiah: No. So I think that we have discussed this in previous earnings calls, right? Basically, what happened was CG Power happened at the point of COVID, and I didn't want to put TII's balance sheet in any significant risk. So we basically raised a small amount of capital at that point to offset the expense that came with CG Power. Because it was in the middle of COVID and the

environment was quite uncertain, right? Otherwise, kind of -- I think that's the only time in TII's history that we've ever kind of raised money. And so it's not our stated intent to kind of raise at the parent company level and use that as a mechanism for driving this growth at this point in time. We do believe that between the free cash and kind of other forms of generation, we should be able to generate enough cash to drive that growth.

Rajrishi: And Mr. Vellayan, this kind of news articles which we read about Apple shifting significant production to India and India emerging as electronics hub, and you have also elaborated in the previous con call that 95% of the components in mobile, etcetera, is imported from China. And you think over the next decade, that kind of ecosystem will be created here. So that presents like unprecedented opportunity, and that's how I understand it. Can you just elaborate your view?

Vellayan Subbiah: Yes. I agree, it's an unprecedented opportunity. So it's silly for us not to be very actively involved in. It's an area that we're spending a lot of time on. I'm beginning to think of how we can get involved. The only thing is that we are -- I mean, like our whole approach to some of these things is a kind of patience because we're looking at kind of how we build it out over the next 10 to 15 years. We're not that concerned about like doing something immediately tomorrow, but it's an area we're spending significant time on. And I do feel like it will begin to yield results over time.

Rajrishi: Just another thing. Like there's talk about Tata's tying up with Wistron, etcetera, for production of Apple phones. So you would be interested -- like your focus is, what, components or something like mobile manufacture itself?

Vellayan Subbiah: At this stage, our larger interest is components. I mean, it's something significant on the assembly side off of itself. Yes, our concern with assembly is that we didn't want to get into kind of caught in a very low-margin business, right? So I think assembly will depend on the nature of the opportunity in that segment, right, unless it kind of gave us some understanding or path that will allow us to kind of improve the margins of the business. That's where we see something that requires more intellectual property and R&D, which would be more on the component side. We'll, therefore, kind of be able to afford a higher margin business, and that's what kind of our initial focus continues to be.

Moderator: Before we take the next question. [Operator Instructions] We have the line of Mr. Niket connected again from Motilal Oswal AMC. Please go ahead. Mr. Niket.

Niket: Just one question. If you can just highlight, how are you looking at the financing part for all the three EV verticals that we have?

Vellayan Subbiah: Yes. So obviously, the financing strategy will be different. In 3-wheeler, we've 3 tie-ups right now. The -- with 3 financiers already, and we're looking at developing a couple more. That includes banks and NBFCs. The -- On the truck side, we have 1 tie-up in place, and we're looking at developing two more. Trucks, we're thinking, will be more driven by banks, though some NBFCs are active, because of the rates at which some of these trucks go. It's more driven by -- the larger fleets are all catered to by banks. And tractor also, we started talking. I think we have

two relationships in place. And again, it will be a combination of banks and NBFCs, because both are fairly active in the tractor market.

Niket: And how much benefit does it bring to our EV business of having multiple businesses in-house? Like, for example, you do the old panels in-house. You also have industrial chains, auto chains. And then you also have Chola, then you have EV motors. So how much benefit on cost does it bring to vis-à-vis a competitor trying to make a similar product?

Vellayan Subbiah: Yes. So I would say that there is some benefit. I don't know how much of the benefit is a cost benefit, Niket. It's being able to take product to market more quickly is the way I would look at it, Niket. The way you have to really look at electric is the whole first generation of electric products we're doing, we're basically outsourcing, obviously, everything, right, because a lot of the capabilities we don't have in-house.

I definitely see motors -- everything has been outsourced in the first generation of what we do. What we have to begin to look at over time and that's why now we're kind of significantly upping our R&D spend is to see what we start developing more specific capability on. So that's for Gen 2 of all the electric products. There is more of what we have introduced into the mix, right?

And I would say the more of what we have can fall into different categories, some of which is product, but some of which is capabilities we don't have today. Somebody asked about battery, right? We'll have to look at that, right? Somebody -- I mean, another huge area is just software, right? There's more and more software going into vehicles and how we develop more capabilities on that.

So all of those kinds of things are all going to be part of Gen 2 of the vehicles. Gen 1, I would say the advantage on some of these things is still a bit more limited at this stage. But we definitely see it as something that will help our competitiveness once we go forward.

Niket: And one last question, if I may squeeze in. Would you be also open to look at some of the tie-ups? Because as you rightly said on the battery side, some of these are far critical elements of the EV piece. So say, someone like a BYD or any other company within China or anywhere in the world which doesn't have tie-up with any spaces that you are present, will you be open to that? Or do you think that the outsourcing model works relatively better rather than having like a joint venture kind of a model?

Vellayan Subbiah: No. I mean, we are definitely open to it, right? So I definitely think that -- so the short answer, Niket, is that we are open to that. But I don't know if BYD is the right answer because BYD kind of makes their own product as well, right? And it's looking at kind of potentially coming in. The second thing is that I guess, it appears that the government is fairly clear that they don't want majority Chinese ownership in a lot of these things.

Moderator: Thank you. We have the next question from the line of Raj Shah from Marcellus Investment Managers. Please go ahead.

Raj Shah: So as you mentioned, sir, about the optical lens business, that learning curve has been steep and longer than expected. I just wanted to know your view on the TMT bars business, how has been the journey and what are the learnings from these kind of businesses?

Vellayan Subbiah: Yes. The TMT bars is another one where basically, I think the basic focus has been kind of what it would take to differentiate in a commodity product, right? Because if a product kind of sticks predominantly as a commodity, it's more difficult for us to participate in that business in the long term. So that's what I'd say the biggest learning curve has been, right, which is that those are real product differences we can create.

The ability to get the market to understand those product differences is a bit more challenged, right? And so that's, I would say, kind of our biggest learning from that business, where we continue to get investment. Getting the market to value differentiating – that differentiation, the reality of what the market is absorbing is different.

Moderator: Sir, the line of the participant has got disconnected. Ladies and gentlemen, that was the last question that the management could answer. I would now like to hand the conference over to the management for closing comments.

Vellayan Subbiah: Nothing specific from our side. I will hand back to you.

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.