



“Tube Investments of India Limited Q4 FY14 Earnings Conference Call”

May 7, 2014



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MODERATOR: **MR. KASHYAP PUJARA – ANALYST, AXIS CAPITAL**



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Moderator:

Ladies and Gentlemen Good Day and welcome to the Tube Investments Q4 FY'14 Earning Conference Call hosted by Axis Capital Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kashyap Pujara from Axis Capital. Thank you. And over to you sir.

Kashyap Pujara:

Hi, Good Morning, everybody, thank you for being on the call with us and standing by. We are happy to have with us the management of Tube Investments represented by Mr. Ramkumar – the Managing Director and Mr. Arjun Ananth – the CFO. Without taking too much time, I hand over the floor to Mr. Ramkumar, over to you sir.

L. Ramkumar:

Good Morning to all of you, and thanks again for taking time off to be with us on this 'Investor Call.' I will run through the figures and the performance for the quarter and the full year; first, for the standalone company and then we will move on to the consolidated, and a few details about the volumes and then later about the subsidiaries.

As far as Tube Investments standalone is concerned over the same quarter last year our top line grew by 6.6% and in the full year we were down by (-1.1%.) Coming to the profit from operations before other income, finance cost and exceptional items, we were at 5.7% against 5.4% of sales last year same quarter and for the full year we are marginally better at 6.5% against 6.4%. The profit after tax we ended the year at Rs.94.07 crores against Rs.103.96 crores.

Now, if I go to the individual divisions, in the case of Cycles there was a drop in the value of turnover during the quarter. Overall, we dropped value by 6% for the full year.

In the case of Engineering division we did far better; we grew by 10% in this quarter over the same quarter last year and 2.5% over the previous year.

Metal Form products again, the top line grew for the quarter by 10.4% while the whole year we are flat around 0.2% improvement. This is as far as the standalone company is concerned.

Coming to the segmental results, again Cycles & Components we had an improvement on a very small base, so the percentage looks very high it went up from Rs.0.72 Crs to Rs.1.53 Crs. for the quarter, largely because the volumes were down, the mix is not favorable, we are not able to pass on all the cost increases during the quarter, so the margins were affected during this quarter. For the full year, our profits dropped by 21%; this is again due to a lot of cost pressure and the mix.



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Engineering division I think did exceedingly well largely due to product mix, efficiencies, cost reduction, etc. so their margins improved; the overall PBIT improved by 38.3% quarter-on-quarter and 23.8% over the full year.

Metal Form products had a problem especially in the Roll Form section for railways and to a large extent for investments we made for certain models of Tata; however, this is largely compensated by a good increase in turnover and volume in the Automotive Chains business which are largely dependent on the two-wheeler. We ended up with a drop of 21% in the PBIT quarter-on-quarter and 16% for the full year.

Coming to the volumes of the standalone company, in the Bicycle division over the last year our volume dropped by 7%.

In the case of Cold Rolled Strips where we have installed a new furnace to make Cold Rolled High Strength Steels and also opened up the exports, the overall growth was 7%.

Tubes domestic were virtually flat, Tubes export grew by 19% – overall Tubes grew by 1% taking all this into account.

In the case of Door Frames there was a drop of 14%; significant drop coming in the case of Tatas and Marutis where either volume was not there in the respective models which have Door Frames or where they had exited some of those models.

In the case of Chains, the total chains grew by 18.1% in terms of quantity and aftermarket we grew by 31%. Fine Blanking we grew by 15% and export of chains were down compared to last year which was anticipated given the market conditions in Europe. This is as far as the performance is concerned.

Going forward, the outlook for each of the divisions, say in the case of Bicycles, one of the important things that happened last year and the previous year to some extent was we were not very well geared for the season – the season is between March to June, July – and normally we have seen that the skew is very high in the first four months of the year and then the whole thing tapers off. So the difference between maximum, minimum could be in a company like ours which is largely driven by Specials and Kids Bicycles as high as 20-25% so unless you are geared up with your supply chain it's very difficult to capture this, and if you lose this it's very difficult to make up in the second half of the year. This is what we found out. Going forward we are well prepared for the season this time; the beginning has been good, so I think this should shore up our overall volume for the year and going forward the profits and the margins.

Coming to the Engineering division we will continue to look at market share growth even if the overall market does not grow. We have assumed a very moderate growth. Two-Wheelers growth has been very helpful to us. Added to this the new investment which we are making in



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the large diameter tubing, catering to the off road vehicles and some specialized automotive applications, structural, etc., is on its way. Many equipment's have been installed, and the Greenfield project is expected to be commissioned sometime in July, and I think in the third quarter the production etc., will stabilize; this is going well and I think a considerable amount of work has been done in terms of identifying the potential customers not only in India but also overseas.

Added to this in the Strips business again, we are seeing a good traction for exports, especially with our High Strength Steel. The customers are in the ASEAN region where there is a freight benefit for them. They were buying it from Europe and other countries.

The export in Tube business also is expected to grow because we are working with some of the long-term customers who have only given the initial orders. If we are able to perform consistently on delivery and quality, the volumes are expected to go up significantly in the current year and the year thereafter.

Metal Forming division – in the Chains we continue to grow; we are full up on capacity, we have made marginal investments to de-bottleneck to increase the capacity, it will take care of 2014-15 and the Industrial Chain portion, we have maintained our leadership in the market.. Apart from that our export efforts are going on along with our subsidiary company – SEDIS where we have been holding on; last year we were virtually flat on turnover and profits compared to the previous year. In the current year, many plans have been made to increase the top line, the company continues to be strong in France, but efforts are on to introduce new products especially the American standard chains in Britain and America, as well as explore new markets in North America as well as the rest of Europe. Fine Blanking business which is a good value-added business was affected during the last year due to passenger car industry slow down, but the gratifying thing is the company is getting a lot of inquiries for giving value-added products. So we have had some good programs being approved by some of the well-known car makers in the country in Fine Blanking and we see this will continue to grow.

Going to Metal Forming, the mainstay will be Hyundai; we did get an order for the latest brand i10, we supply to them. And apart from that the other major products have been basically the Tata-related which is Nano, Indica and Maruti's cars where door frames are coming down, and Nano is not doing very well. We have been looking at other products to be done for Tatas; we have been in talks with them in terms of using the facilities in both Sanand and Pune. We have also been looking at ways to rationalize some of the facilities by which we consolidate in one location. In the Railways, the government is about to release some orders, but the prices have fallen and there is total non-clarity about what is the quantity. Even though at the macro level one would think there is a huge demand for this both from a refurbishment as well as introducing new wagons based on which only we made the investments, but in the last two years virtually the railways have taken a break; they have not issued any orders, we have been



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servicing some of the workshops – Southern Railway, Western Railway etc., we keep it going, but during the current year we need to see how to make the best use of the facilities. We have substantially cut down on our working capital here; inventory has been reduced and our costs have reduced to the last pie; we are keeping very minimal cost, we will only add more people and add up more things only if there is a revival in the demand, so that there is no impact on the margins. Apart from this, the division also does Motor Casing for which we have set up a press and business for this has been growing, and we think there is also some amount of imports substitution which is possible here. So overall, if you see this is the outlook for the various businesses of TI standalone.

Now, if I come to the subsidiaries, I will start with Shanthi Gears: As you know we have published the results; we have grown over last year both in terms of turnover and profits. The expectation was more considering that there would be a growth in the industry. As you know the capital purchases and projects have been put on hold in the last quarter, I think everybody is waiting for what is going to be the outcome in terms of political stability, policy stability, etc. We are also hoping some stability we will get, but still the amount of work that has been done in terms of going to customers, getting their attention, and getting traction from export customers as well as doing a number of practices in the shop floor in order to streamline the various systems is on, and we continue to work on various new projects including the servicing of Gear Boxes, etc., to increase our revenue and profits in the coming year. Coming to the financial subsidiaries; two of them as you know one is Cholamandalam Finance... may be I do not have to get into this because its published information but we all know they have done exceedingly well in terms of their performance under the circumstances. The disbursements have gone up and their net interest margin has gone up. Overall, their profit after tax for the full year went up to Rs.364 crores after making some provisions and other things. The disbursements went up by 8% from Rs.12,118 crores last year to Rs.13,114 crores, growth of 8% during the current year.

Coming to Chola Insurance again, I think they have had a good year; their gross written premium went up; the profits look a little depressed because there have been provisions for the Motor pool losses, I think a provision of Rs.74 crores was made during the year; all the required provisions have been made for this purpose and hence that is reflected in terms of the profit after tax of Rs.70 crores against Rs.60 crores last year.

One more small 50:50 joint venture TI Tsubamex we started; I am very glad to tell you that we have recruited engineers who are undergoing training in Japan to learn about die design, usage of software, the Tsubamex way of doing things, and they have been very well rated by our collaborators in Japan. It is a matter of time before they come back. Most of these products are today being imported into India. We will start interfacing with the customers along with the Japanese. First we will do, use these people to make the designs of the die, and then we will start getting the dies made partly in Japan, partly in India, may be going forward we will set up



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some servicing facility, and then may be after 18-24-months if we think the business is very strong we may even go for investment in new project for manufacture of these dies and tools in India which is very much wanted by various OEMs whom we have met in the last couple of years. So this is broadly the summary and where we stand.

And with this, Kashyap, I just hand over the mic back to you guys, and if you have any questions we will be very glad to answer.

Moderator: Thank you very much, sir. Ladies and Gentlemen, we will now begin the question-and-answer session. First question is from the line of Prashant Dave from First Consultant. Please go ahead.

Prashant Dave: Just wanted to understand if there are any possibilities of restructuring especially from our financial part is concerned, the hiving off of Insurance business are we considering that or that is probably on the back burner?

L. Ramkumar: Good question... I think we have tried to answer this many times... the thing is 'yes' I think there is always a possibility of restructuring; I must say that we have looked at a few alternatives in the last 6-months taking into account the various stakeholders, the market conditions, etc., I think we could not go through, but I think at the appropriate time you will hear about it, it is not on a backburner it is very much receiving active consideration, and once we are ready with something which is concrete and the board has approved I think we will be in a position to share it with you. So you can take it that it is very much on top of our agenda, and it will be done at a time when it is very essential for both the financial services group as well as us, as we already maintain I think the group policy is to see that none of the businesses suffer because of the current structure, that is the growth or the capital requirements should not be hit because we have the structure. So at the appropriate time when we think whatever restructuring is going to facilitate this growth, it will be done and it will definitely be informed to all of you.

Kashyap Pujara: Mr. Ramkumar, a couple of questions that I wanted to ask you; first is from a perspective of the Insurance business, in that you mentioned that you absorb Rs.75 crores of write-offs for this full year, right?

L. Ramkumar: Yes.

Kashyap Pujara: And how much would have been in the last quarter – any granularity there?

Arjun Ananth: I believe everything was done equally in the four quarters.

Kashyap Pujara: So going forward next year like say with the Third Party Motor Pool loss no longer being there, can we expect Insurance to actually start demonstrating its potential profit it actually can so which is like say Rs.140-150 crores?



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- L. Ramkumar:** It should go up, but number I do not know.
- Moderator:** Thank you. We have next question from the line of Sameer Raj from Reliance Mutual Fund. Please go ahead.
- Sameer Raj:** Sir my question is specifically related to Shanthi Gears. What is our long term plan for that company – would you want to keep it as a separately listed company or we would want to merge it with Tube Investments over a period of time?
- L. Ramkumar:** Long term plan is to grow the company; as you all know we are still have a lot more capacity to use up, so our goal is to improve the top line very aggressively by entering into various segments. In some cases where we have to do some import substitutions, some people are talking to us from overseas who do not want to set up on their own, they would like something to be done in India, something from overseas with high technology. So we are looking at several avenues for increasing our revenue and also making more offerings to customers. So if you ask me in simple terms, yes, it will be aggressive growth to use the assets and also improve the profits. Second, “Whether it will be a separate company or it will be merged?” This is a classic debate which we keep having; there is no right or wrong answers at this point of time, we have decided that it will continue as a separate company.
- Sameer Raj:** Sir, secondly, regarding the Railways business what will be your expectation if stable government comes at the center in a term?
- L. Ramkumar:** Somebody has to take a very long term view of what is required and commit the resources. I do not know whichever government comes what will be the priority – it is going to be railways, it’s going to be agriculture, it’s going to be some other industry – we are not able to say anything at all but when we invested, the mood was positive, and the momentum was very good at the time we invested and suddenly came to a grinding halt, I would really think that we will have to wait and see.
- Moderator:** Sir, we will move on to the next question; that is from the line of Romil Jain from Quantum Advisors. Please go ahead.
- Romil Jain:** Sir, I have a couple of questions; first is how do you see the CAPEX requirements in FY-'15? And if you can just mention how much was the CAPEX done in this year FY-'14?
- L. Ramkumar:** FY-'14 we ended up with Rs.169 crores. FY-'15 also around same number we will be planning to spend.
- Romil Jain:** Sir, secondly on the investments in your subsidiaries, how do you look going forward in terms of outlook of various subsidiaries – what kind of investment or is there any plan to give any additional capital to the subsidiaries?



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- L. Ramkumar:** Not really, as you know Chola Finance, there has been various forms of fund raising which they have been doing where we have not participated in the last 1 or 2-years. Chola Insurance we invested I think they are fairly well capitalized, so their investment book itself is so big and they reached a size, where I think they can manage on their own for quite some time. Apart from that we only have Shanthi Gears who are fairly liquid in terms of fund and we do not see any major investment coming from us into the subsidiaries in this year.
- Romil Jain:** And on the Insurance business have we invested in this year anything?
- L. Ramkumar:** Rs.55.5 crores we did in '13-'14.
- Romil Jain:** And sir on the Large Diameter Tube which is a new project and will get commissioned soon, when will the total CAPEX get completed on that and how much is left on that?
- L. Ramkumar:** I think Rs.60 crores is left to be done in this year, total is around Rs.250 crores. I think we will complete the CAPEX by July so...
- Romil Jain:** Sir on the Insurance side, Embedded Value (EV) or the New Business Acquisition Premium (NBAP) or something if that you can give?
- Kashyap Pujara :** Just to highlight that this is a General Insurance business so essentially there is no NBAP involved here, here you will have to look at the claims ratio which keeps coming in, and so every year you collect premiums, so you will have to look at it separately. Life insurance business is where you have all these variables into play.
- Romil Jain:** How is your outlook on the currency from here on and how much out of the total debt do you have FOREX debt and if it is hedged or not?
- Arjun Ananth:** Our view on the currency is that the rupee-dollar will settle somewhere between 59 to 62, and so far as all our foreign currency borrowing is concerned, we have a policy of hedging it on day one, so we do not have any unhedged exposure.
- Romil Jain:** This Cold Rolled Strips that we have where it is exactly used, can you just give a sense on that?
- L. Ramkumar:** These are used for Auto Components, these are used in making Chains; these are used for Fine Blank Components and some are used for making Tubes.
- Moderator:** Thank you. We have next question from the line of Neha Majithia from Microsec Enterprises. Please go ahead.
- Neha Majithia:** I had some questions on Shanthi Gears; particularly I just wanted to know the capacity utilization for FY-'14 and the 4th Quarter of FY-'14?



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- L. Ramkumar:** Capacity is difficult because it is not a standard product but we can say in the range of 35% to 40%.
- Neha Majithia:** So it is the same which we had in the 3rd quarter, right?
- L. Ramkumar:** This must be the average through the year. 4th quarter was a little depressed I think.
- Neha Majithia:** Any idea on the CAPEX front for the full year FY-'14 for Shanthi Gears.?
- L. Ramkumar:** I think we did approximately Rs.5 crores in FY'14, we may do approximately Rs.13 crores in FY'15.
- Neha Majithia:** And sir any improvements in the market share of Shanthi Gears because it had actually gone down drastically to almost 4%?
- L. Ramkumar:** As you know we have grown marginally. The markets have been depressed also. I do not think we would have improved our market shares.
- Neha Majithia:** Sir as we know that like the management people are approaching the old clients which the company had lost for last 6-months. So any positive thing coming on that and anything which we can see that could reflect on the financials may be in the next quarter?
- L. Ramkumar:** It should reflect, for example, we have contacted the major cement companies, and some of them we have done repair work, some of them are in the process of finalizing the order.
- Neha Majithia:** So any intimation on like when can that reflect and may be in second quarter, 3rd quarter or maybe I can take it as in the FY'15 financial?
- L. Ramkumar:** This year we should get these orders, then we have been working with some public sector companies like BHEL, HAL, these also we had lost earlier, I think we are getting qualified. Then we are approaching a lot of consultants or companies in the steel industry for example, they need a consultant to recommend the gear box and all that. So we have found that we have revived our enlisting with these people. The good news is wherever we have gone people have definitely welcomed us, they are also I think happy that Murugappa Group has taken over so that there will be long-term view of the business. Only thing is I think these all happened at a time when the overall market conditions are little depressed, people are postponing capital purchases. So I think once the sentiment revives we will get the full benefit of it.
- Neha Majithia:** So with that some positive news coming in, so can you expect somewhere around 10% to 12% growth on the top line front in FY-'15?
- L. Ramkumar:** It is a reasonable assumption.



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- Neha Majithia:** Any just idea on that just guidance on top line front for next couple of years?
- L. Ramkumar:** I would say definitely as I mentioned to another gentleman who asked a question on Shanthi Gears, definitely our plans are for aggressive growth not a normal 5% to 6% kind of growth, and some of these will come in only if we get back some of these customers and improve over market share,. I would say the outlook is quite optimistic. The growth prospects are far better in Shanthi Gears or any of our other divisions where we have a significant market share and we have almost there, it is like that.
- Neha Majithia:** I just want to ask that we have lost on the margin front for the full year. If we see in the last six years, the margins have dropped to almost to 26.7% on the operating level front. So what are the efforts done by the company to save on the margin front for next couple of years in '15-16?
- L. Ramkumar:** Yes, lot of work is being done on cost reduction, material substitution, and helping customers in smart selection of Gear Boxes by which they will be able to select Gear Boxes which are less costlier. So the margin is definitely being kept in mind where we will make all the strategies and plan.
- Moderator:** Thank you. We have next question from the line of Hardik Shah from Birla Sun Life Insurance. Please go ahead.
- Hardik Shah:** I just have two questions; the current liabilities have increased significantly from '13 to '14, so can you just give me breakup on that. The second question, again based on the overall CAPEX for the full company or for FY-'15 what would it be?
- L. Ramkumar:** We did around Rs.169 crores in '13-14. We are likely to do a similar number in '14-15 also.
- Hardik Shah:** And what about debts from this point onwards – you are expecting the debt to remain at similar levels or it will be expected to come down?
- Arjun Ananth:** The other current liabilities are basically a reclassification of loans that are coming due this year are classified as other current liabilities from long-term loans.
- Hardik Shah:** How would that be within one year?
- Arjun Ananth:** The current maturity of long-term borrowing is almost Rs.422 crores. And your second question... the debt level will probably remain at the same level during the year give or take.
- Hardik Shah:** Sir, this will be made from cash accruals or some refinancing you are planning?
- Arjun Ananth:** We will refinance whatever that is coming during the year.



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- Moderator:** Thank you. We have next question from the line of Sameer Raj from Reliance Mutual Fund. Please go ahead.
- Sameer Raj:** Sir, I have one specific question on our Chain business. In your opening remarks, you mentioned that it is very well in Chain and grew by around 18%, is I heard correctly? Replacement market grew by as high as 35%. Basically you seem to have gained market share in this business. So, what will be our market share at this point in time?
- L. Ramkumar:** With OEMs this is upwards of 40% plus.
- Sameer Raj:** And in the replacement?
- L. Ramkumar:** Replacement is difficult to say because there are two ways; one is Hero, Bajaj and all buy from us for replacement. We also directly sell to replacement. What I said growth is what we sell directly to dealers and distributors, right. I think the OEM scattered to 60% or 65% of the market, the balance is shared by the chain makers like us and others who directly go to the market.
- Sameer Raj:** Would you be as optimistic for this division in the current year as you reported last?
- L. Ramkumar:** Directly linked to two-wheelers, I think we should be optimistic because two-wheelers have weather the storm, they have not dropped and probably if the economic activity picks up two-wheelers also will start growing more.
- Moderator:** Thank you. Next question from the line of Siddharth Sivaramakrishnan from UTI Mutual Fund. Please go ahead.
- Siddharth S.:** I had a question on the Large Dia Tube facility that will be operational in July. I want to understand being an import substitution kind of business, will there be domestic competitors for this business and what would be the likely revenue potential when fully ramped up and when is that likely to have?
- L. Ramkumar:** There is not much domestic competition excepting we will be making Welded Tubes and there are some people who supply Seamless Steel Tubes. But we understand customers prefer Welded Tubes for various reasons of further working and total acquisition cost. So at the moment, it will be largely import substitution. Now if you ask "When will we realize the full potential?" Actually we have two parts of the investments; one is the Plain Rolled Tube which we call "ERW Tube" which will have a huge capacity, then we have balancing part of that with the Cold Drawn Welded Tube, which is the Precision Tubes. We will be largely selling the Precision Tube which is of high value and import substitution, etc. So if you ask, the full capacity of the Precision Steel Tubes will be reached in '16-17 because this year we will be stabilizing, next year will be ramped up, and then hopefully there will be some growth in the



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market also, because we are going to replace imports and others, and we expect that initially people are going to give us only a smaller portion of their purchase to test us out and then slowly as we perform we should be able to get a larger share from them.

Siddharth S.: What would be the revenue pool that you can address when it is fully ramped up?

L. Ramkumar: It will be Rs.360 crores approximately.

Siddharth S.: One more question on the Insurance business – could you give a breakup of the underwriting and the investment profit for the year and what is it likely to be going forward?

Arjun Ananth: The investment income was Rs.175 crores and the underwriting result was slightly negative at Rs. 18 crores.

Siddharth S.: Just to follow-up on the statement that you made earlier regarding the restructuring that may happen going forward with respect to holding on the financial companies, so in this are you comfortable with the stake of Murugappa falling below 50% in the NBFC arm, subsequent to any group restructuring continue to hold more than 50% in the NBFC arm?

L. Ramkumar: A difficult question and very difficult for me to answer this question. I do not know the answer.

Kashyap Pujara: Mr. Ramkumar, just a follow-up question that I have is that if you look at it over the last three to four years, Tube has virtually spent to close to Rs.500 crores in the standalone business, of which most of it has gone into the Large Diameter Tubes and a reasonable part has gone into Chains as well. Now, if I look at your segmentals across say Cycles, Tubes and Metal Form, Tubes and Chains are the only divisions which have actually shown resilience and had actually maintained the performance of TI standalone so to speak, because the other segments have not kept pace and even Cycles we have gone through a couple of misses in the season as you spoke. Having said that these two have done reasonably well and large part of the CAPEX is behind you now. What is the actual top line incrementally that you can do from the CAPEX that has been incurred so far? So like you mention Rs.360 crores is one can do from Tubes from the Large Dia facility. What could be the overall revenue incremental that we could generate from the CAPEX that has gone through?

L. Ramkumar: Some of the revenue has already been realized, because in Chains especially we had to do it at very-very short notice; suddenly we see a demand pick up and within three months, six months, so if you see some of the investment we already made last year, it started yielding results; part of it would have accrued in '13-14, and some more investments we have done last year will give us the benefit in terms of the higher volume and turnover during the current year '14-15. Similarly, in Tubes also we have done some debottlenecking, which will give us increase in the existing business apart from the Rs.360 crores we talked about from the new project.



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- Kashyap Pujara:** But then Large Diameter Tubes would typically be at a higher margin than your normal Tube business. So what would be the quantum, like say in percentage terms, incremental margin that one could get from this business?
- L. Ramkumar:** We are planning for an incremental margin; it will be higher but we will wait till we commission and we will let you know.
- Kashyap Pujara:** If I go to the Metal Form division like we were discussing on Railways, I think that there were a couple of questions on it, and obviously is linked to how the economy performs, wherever it turns and what the vision for Railways, but with the current capacity that you have in Railways, what is the peak revenue that we can achieve from whatever you have onboard?
- L. Ramkumar:** We can do Rs.200 crores approximately.
- Kashyap Pujara:** Currently what would be the number that we would be at Railway Wagons?
- L. Ramkumar:** Last year with some backlogs and all, we did Rs.44 crores.
- Kashyap Pujara:** So there can be substantial headroom, and that is why the margins can swing once the operating...?
- L. Ramkumar:** Correct.
- Kashyap Pujara:** But, of late I think wagon prices have corrected quite a bit over the last few months. So, is it that the structural part that the wagon makers procure from us, have they also witnessed a correction, have they also gone down or is that imperative?
- L. Ramkumar:** That is what they say; they say when wagon prices are coming down, why do you not give lower price, how can we afford to pay you more or even the same price? That is where the problem starts.
- Kashyap Pujara:** But as far as pricing is concerned, our pricing has been more or less the same, we have not corrected on those front.
- L. Ramkumar:** Over the last two-three years the pricing has come down. The pricing was much better at the time when we started the investment at Uttarakhand. Based on that we did the CAPEX. But since then the prices have come down.
- Kashyap Pujara:** So, is it right to assume that there are two levers here, that one is your operating leverage and second is the pricing uptick whenever the cycle turns?
- L. Ramkumar:** I do not know whether they are a lever for us or for the customers.



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- Kashyap Pujara:** You were mentioning in one of your prior calls that in the Door Frame business you are already trying to negotiate price increases especially from say the house of Tatas. Any progress on that front, because clearly the program is that they would have given you for Nano and what is actually selling in the market is far lower. So would not that warrant revisit on the number front?
- L. Ramkumar:** Some help we have got in terms of some waiver of some cost and some tooling purchase and all that. Beyond that they also have some problem. So we have to decide what we want to do.
- Arjun Ananth:** On the Insurance, Rs.74 crores that we said was equally distributed in the four quarters. The corresponding number for previous year was Rs.67 crores, also equally distributed in four quarters.
- Kashyap Pujara:** One more follow-up would be that if I just look at the trend of underwriting versus investment income over the last few years could you just give a trend as to how your underwriting profits have moved, like say you are at a marginal loss of Rs.18 crores, what would have been over say 3-4 year perspective in the past, how has that trended – has it been going down, at that point...?
- L. Ramkumar:** I think underwriting losses are coming down but I do not remember the number, we only have last year and this year, we will get you the number soon.
- Moderator:** Thank you. The next question is from the line of Nilesh Gandhi from Destimoney Securities Private Limited. Please go ahead.
- Nilesh Gandhi:** I just have some basic questions in MFD division, as you said that Tatas have a problem with volumes that they are selling in the market. So, I wanted to know are we having any tie-ups with Honda?
- L. Ramkumar:** No, we do not do much for Honda.
- Nilesh Gandhi:** In Chains division, to whom do we supply in two-wheelers – Bajaj, TVS, Honda?
- L. Ramkumar:** All; we supply to Bajaj, TVS, Hero, Honda Motors, Yamaha, Suzuki.
- Nilesh Gandhi:** Any plans that we have some future tie-ups with Honda or say the other players which have joined the market?
- L. Ramkumar:** Honda Motorcycle we do quite good business on Chains. Honda Cars – the Door Frame portion is being done by one of the Japanese players, he is doing it for them, so I do not know whether we will be able to change that, but otherwise we are approaching all the automotive manufacturers like Honda and others for the various products including the dies, tools plus any



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other structural parts which we can do with Tubes, etc. We have been doing our Tech Shows to get any business that is possible from them.

Nilesh Gandhi: All the players, including Honda?

L. Ramkumar: Yes, we do with all – Nissan, Maruti, Tatas, Mahindras, Toyota, everybody.

Nilesh Gandhi: Any initial queries on that front from any of the player?

L. Ramkumar: We have got fairly good orders from Maruti for Fine Blank Components. We have been doing something with Nissan on the Door divisional channels. We do something for Toyota also.

Nilesh Gandhi: Anything on Maruti's future products that you have got some initial orders or something for Door Frames or there is no progress on that front?

L. Ramkumar: Door Frames, Maruti is not too keen to go ahead with this kind of structure in future, they want integrated doors, but we are making progress on other products like Fine Blank Components.

Nilesh Gandhi: In case of Shanthi Gears, can I know who would be the key clientele sector or some of the names that you regularly supply to and you wish to, as you mentioned that some of the cement companies that you are talking?

L. Ramkumar: Cement companies, steel companies, sugar companies, compressor companies.

Nilesh Gandhi: Are you supplying to them right now or you were supplying before prior management?

L. Ramkumar: We are supplying right now.

Nilesh Gandhi: As you mentioned that cement companies have placed some repair orders. So any other progress from other sectors or...?

L. Ramkumar: Every sector, there is a good traction. I do not think it is right for me to list out all the names of the customers, but broadly these are the sectors.

Moderator: Thank you. We have the next question from the line of Hardik Shah from Birla Sun Life Insurance, please go ahead.

Hardik Shah: Sir, wanted to ask you a couple of questions; what is the working capital cycle in terms of number of days?

L. Ramkumar: We calculate in terms of the turns, sales to networking capital, that is how we measure our internal efficiency – it is approximately 14 times.



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- Hardik Shah:** What was it in the last year?
- L. Ramkumar:** I think last year was around the same.
- Hardik Shah:** What would be the average cost of borrowings?
- Arjun Ananth:** It is about 9.5% for long-term borrowings.
- Hardik Shah:** The final question, your short term loans and advances have gone up from say like Rs.99 crores to Rs.553 crores. What could be reason for that? Point #E, current asset side on the consolidated for the full year.
- L. Ramkumar:** Standalone is Rs.39 crores to Rs.67 crores, others must be financial services, depending on the market conditions, they keep taking loans, and I do not know really, we will have to check, we will get the details.
- Moderator:** The next question is from the line of Romil Jain from Quantum Advisors, please go ahead.
- Romil Jain:** Just a couple of questions on the follow-up side; one, our Cycles volume were down for the whole year by around 7%. At the same time how is the demand growth for domestic market let us say in India?
- L. Ramkumar:** We believe it must have been a decline because as per our market intelligence, the major competitors have also not grown. The market is down by 3% to 4%.
- Romil Jain:** Last year approximately it would have been a small growth or something?
- L. Ramkumar:** Last year only I am saying, 2013-14; once the results are out from everybody, we can add up and see.
- Romil Jain:** So let us say for TI what would be the driver going forward if the volumes were to increase, or how are we looking at increasing our volumes on the Bicycles side?
- L. Ramkumar:** There are two things we can do; one is, new products, which definitely drives the sale during the season especially in the normal category of kids and other bicycles. In the premium segment again new products and better servicing, we can do more volume. I am talking about bicycles of value above Rs.6000 and Rs.7000; it will be small. I think what we call as mass premium, I think we do around 100,000 cycles, I think we can take up the volume there. Important thing is, as I was saying in the beginning, 'servicing.' The seasonality if you can catch, and be ready, I think we can score over competition in order to get a larger share of the market. Supply chains also have to be aligned to this, which is what we are trying to do now.



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- Romil Jain:** So let us say in FY14, what would be our mix on the standard cycles and the special cycles?
- L. Ramkumar:** We always try to increase the percentage of specials to the total.
- Romil Jain:** On the cost of raw materials that we have, if you see the income statement on the standalone side for the full year, it was almost a very small increase on the raw material side. Primarily we assume that the major increase was on the Bicycle segment, where the raw material cost was quite high, but were there any other segments where we saw a drop in the raw material prices?
- L. Ramkumar:** Steel prices have gone up, so the prices went up for Bicycles, Tubes, Chains, Metal Form Products, all products.
- Romil Jain:** Because the change was not very major, so I was ...?
- L. Ramkumar:** Yes, because in many cases we have recovered from the customers, there has also been an improvement in efficiency or cost reduction to compensate for some of the drops in non-recovery.
- Romil Jain:** But the price that you recover will not come under cost of material, it will come on the top line side, right?
- L. Ramkumar:** Yes, correct; revenue will go up, cost also would have gone up.
- Moderator:** Thank you, Mr. Pujara you may go ahead with your question.
- Kashyap Pujara:** I had a follow-up question regarding tonnages, if you could help us with what was the exact volume in terms of say number of units of Bicycles for the year and probably for the quarter, and likewise for say the Tube segment overall tonnage, Strips plus Tubes combined for that matter?
- L. Ramkumar:** Bicycles we ended up 38 lakhs nearly as against 40.6 lakhs last year. If you want me to add up all the Tubes and Strips...
- Kashyap Pujara:** Whether you can give it as a split or added up, whatever?
- L. Ramkumar:** Last year was around 196, this year it is around 201.
- Kashyap Pujara:** Like say for example in the Chains, normally we measure it as ESS feet, right?
- L. Ramkumar:** Right.
- Kashyap Pujara:** Chains is the only segment which is showing volume growth in that segment?



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L. Ramkumar: Correct.

Kashyap Pujara: We do not have any further questions. So thank you so much everybody for the call and the management for being with us today. That is all from my side.

L. Ramkumar: We thank all of you.

Moderator: Thank you, all. On behalf of Axis Capital Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.