



“Tube Investments of India Limited
Conference Call”

February 10, 2014



ANALYST: MR. FARZAN MADON

**MANAGEMENT: MR. L. RAMKUMAR
MR. ARJUN ANANTH**



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Moderator: Ladies and gentlemen, good day and welcome to the Tube Investments Q3 FY 2014 Earnings Conference Call, hosted by Axis Capital 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 telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Farzan Madon from Axis Capital. Thank you and over to you Sir!

Farzan Madon: Hello, good afternoon everybody. Thank you for being on the call with us. We are happy to have with us the management of Tube Investments represented by Mr. Ramkumar, the Managing Director and Mr. Arjun Ananth, CFO. Over to you Sir!

L. Ramkumar: Thank you. Good afternoon everybody. Thank you for attending this call with us. I will quickly take you through the key aspects of the quarterly results the quarter ended December 31, 2013. We will start with the standalone company and its division then I will take you through the consolidated results and some of our subsidiary businesses. Topline ended at ₹834 Crores versus ₹765 Crores last time a growth of 8.2%. The profit after finance cost before exceptional items we ended with ₹25.88 Crores for the whole company as against ₹14.13 Crores reported for similar quarter last year.

Now looking at the segmental results, in the Bicycle division we did ₹278 Crores turnover as against ₹268 Crores, a marginal growth. In the engineering division we had a good growth growing to ₹380 Crores versus ₹341 Crores of turnovers same quarter last year. Metal form products were at ₹210 Crores against ₹188 Crores the previous year same quarter. In Bicycle division the profits were slightly better than the previous year. The Engineering division's profit before interest and tax have recorded a significant improvement and there was a good improvement in the profits of metal formed products from ₹16.2 Crores to ₹19.9 Crores.

Now coming to the overall volume situation, in the Bicycle business after several quarters we had a growth of 2.5% in the trade volumes but compared to the same period last year there was not much growth because last year included an element of institutional sales. Coming to the Engineering division, we grew by 12% in volume terms in cold rolled steel strips, and we grew by 7% in the tubes, both domestic and exports included. In doorframes we had a drop in volumes mainly because of the automotive situation. Predominantly the drop came from Tata's and temporary suspension of the Tavera product for which we



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supplied door frames from Halol. There was also a big drop in the railway wagon sections by 77% from the same quarter last year.

In the auto chains we grew upwards by 31% and in the Industrial chains we had similar growth percentage. In Fine blanking we grew by 24%. In after market, we grew by more than 30%, exports had a small growth of 2%.

Now coming to the consolidated results in the gear and gear products we grew our turnover to ₹42 Crores from ₹28 Crores same quarter last year. We also had a good growth in Cholamandalam Investments and Finance from ₹669 Crores to ₹847 Crores and we had a good growth in insurance as well going up from ₹326 Crores to ₹414 Crores in the topline. There was also an improvement in profits in the case of financial services and Shanti Gears. There was a drop in the case of insurance because we had to provide the claim for the Motor Pool. We had to provide ₹14 Crores for the Motor Pool losses a further ₹14 Crores will be provided in the coming quarter. Overall, consolidated top line grew from ₹1837 Crores to ₹2189 Crores and our profit before interest and tax also grew compared to the same period last year.

Now looking at Chola Insurance, we grew the topline to ₹414 Crores and the bottomline went up to ₹18 Crores. In the case of Cholamandalam Investment and Finance, disbursements went up during this quarter from ₹3113 Crores last time to ₹3336 Crores and hence profit before tax went up to ₹140 from ₹122 Crores.. Going forward in Q4 we see reasonably good prospects in the case of two wheelers. Some of our businesses are dependent on two wheelers. Passenger car industry on which we are also dependant is recovering very slowly. In our Bicycle business, we expect growth to start from the upcoming season in March otherwise the demand has been quite stagnant. We also see fairly good improvement in our gear business because we are getting back a lot of customers of the company who had left them a few years back.

So overall this is the situation as far as TII and consolidated results are concerned. Now we are ready to take any questions.

Moderator:

Thank you very much Sir. We will now begin the question and answer session. The first question is from Neha Majithia from Micro Securities Capital. Please go ahead.

Neha Majithia:

Good evening Sir. My questions are with regards to Shanti Gears. See the company itself doing a very high turnover with same facility in 2005-2006 say turnover of ₹162 Crores net



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profit of ₹28 Crores and so on so. I mean it is doing pretty good so Shanti Gears also had an internal target of reaching around ₹500 Crores of turnover by 2010. So I mean what would happen to the financials and what were the reasons for the deterioration in the financials. So I just want to know the basic reason like how the management itself was very much strong before and since it has now come to a very stronger hands so what are your expectations, forward expectations? What I was asking is like the company had a very good financial say like it has turnover of around ₹160 Crores and around a PAT of ₹28 Crores in a way back in 2005-2006 and somewhere down the line the management, the old management somehow gave an internal target of reaching around ₹500 Crores of turnover by 2010...?

L. Ramkumar:

Who said that ₹500 Crores I did not follow this, ₹500 Crores was projected is it?

Neha Majithia:

Yes. This was way down the line. I guess the whole management had may be given an internal target. So what was the problem was the company actually faced or what was the reasons for your deterioration in the financials and since now the company has now come to the stronger hands so what are your and what is Tube Investment plans with Shanti Gears going forward?

L. Ramkumar:

I think the reasons probably are well known, but still I will repeat it. In 2008-2009 the company reached a very high turnover of approximately ₹260 Crores. They projected the same growth will continue and go up to whatever number you said but since then management which was running the company had actually reduced the production,. Since then they have never reached a ₹200 Crore mark at all. So after that the sales have been in the range of ₹140 Crores to ₹160 Crores. We took over the company in 2012 September. Now after we took over we have been approaching various customers. The customers still have a lot of confidence in the facility and the product and slowly they are all coming back. So you would see over a period of time the turnover will grow but only problem is compared to that time the industrial growth is a little slow. But we are making a lot of efforts to increase the turnover at a faster pace.

Neha Majithia:

My second question is like since now you have substantial amount of stake in the Shanti debt so does the company has any plans of merging Shanti Gears within itself or may be going for a highest stake in future?

L. Ramkumar:

At the moment we are not going to do anything with the stake. It stays at whatever percentage it is and we are not thinking of any merger.



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Neha Majithia: May be can I assume it from next may be two three years you don't have the chance for doing the same?

L. Ramkumar: Sorry?

Neha Majithia: May be for next two three years you are not planning for the same right then?

L. Ramkumar: I can say at the moment there is no such thinking. What happens after two three years is difficult to say given the current market conditions and business environment.

Neha Majithia: My third question is like the global gear market is estimated to be somewhere around USD \$169 billion as of which industrial gears constitute almost 30% while the rest is consumed by the automotive industry and I guess China also has somewhere around USD \$29 billion market for gears, which is projected to grow to USD I guess \$45 billion so my question is why the Indian market is so small for gears it is less than I guess USD \$1.7 billion whereas tyre market is almost 17 times bigger than ours so is there something that we are missing on that side?

L. Ramkumar: I do not think we are missing anything excepting the size of China is so huge. Today China is producing the largest quantity of many things like steel , cement etc, So these industrial gears are directly linked to the industrial growth including steel plants, cement plants, mining and all other things. So I think it is in relation to the size of the industry in these two countries.

Neha Majithia: Does the company have any future plans of increasing their share towards the automotive part rather than the industrial part?

L. Ramkumar: There is no plan to get into automotive at all. We will stick to industrial because I think we have enough headroom for growth in the industrial sector. We will not be getting into automotive.

Neha Majithia: My last question is how much revenue does the company derive from the OEMs, replacement market and exports currently?

L. Ramkumar: Exports is a small percentage. It will grow over a period of time. We do not normally give this information for competitive reasons but you can say it is largely OEM and replacement.



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- Neha Majithia:** Why I was asking was because of the weak rupee obviously and the company is not much into exports so I just thought that the company might be looking after that opportunity of increasing their exports?
- L. Ramkumar:** Definitely we will be increasing our exports. We are getting more enquiries for exports. Today it may be hardly 5% I think and progressively it will go up to may be 15% over two years.
- Neha Majithia:** How much free land is available for future expansion with Shanti Gears and if it does have any surplus land available then can you just tell us in figures or acres how much the company actually possesses the land?
- L. Ramkumar:** We have enough land for future expansion. If you add about the surplus land we have some 80 acres approximately.
- Neha Majithia:** So presently you do not have any plans for disposal of land, no plans are yet?
- L. Ramkumar:** No. Nothing as yet.
- Neha Majithia:** As mentioned in the annual report of FY 2013 the market size of Gear and Gearbox is estimated to be somewhere around ₹3000 Crores and the industry is growing at the rate of somewhere around 6% per annum and I guess as per the annual report is expected to touch around ₹4000 Crores in the next five years, four to five years so my question was like first of all a very basic question is how much of it is the industrial gear and how much is the auto gear?
- L. Ramkumar:** The ₹3000 Crores will be only industrial, auto will be much larger.
- Neha Majithia:** What is the mix of the gear and gearbox in the market size? What will be the mix of gear and the gear boxes if we segregate both of it in the market size of ₹3000 Crores?
- L. Ramkumar:** Gearboxes will be majority between two thirds, one third something like that.
- Neha Majithia:** How much of the above market size which is mentioned is organized and how much of it unorganized?
- L. Ramkumar:** I do not know the definition of unorganized. How would you define unorganized?



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- Neha Majithia:** I guess you have very few players who are organized in the sectors I guess like Shanti Gears you have Premier and you have Elecon so I guess these are the two three major players in gear industry?
- L. Ramkumar:** I think majority of the market will be catered by the organized players only, unorganized will be a smaller portion.
- Neha Majithia:** Sir since company right now is more into customized gears, so what are the future planning? I mean or you can also define us or give us a ratio between non-customized and customize in those gears as of now?
- L. Ramkumar:** Standard products is right now a smaller percentage but slowly it will improve because we are also coming out with a new range of products which is more competitive in the market, Sales of loose gears may be 25% or something like that. The balance will all the gearboxes.
- Neha Majithia:** Who do you think is the largest consumer on gear and gearboxes presently if possible just give me the segmental segregation in percentage wise?
- L. Ramkumar:** Difficult to say. There are general standard gearboxes used by all kinds of industries but major industries will be cement and steel.
- Neha Majithia:** How much of it is OEM market and replacement market? I mean if we talk about this ₹3000 Crores market?
- L. Ramkumar:** Sorry I do not have the data right away with me. We will be having it somewhere.
- Neha Majithia:** One more question is like, can we assume that this industry has been growing by 6% per annum in last five years also?
- L. Ramkumar:** We would say that the industrial growth will be linked to the GDP. As much as the economy grows that is the kind of broad ballpark number you can assume.
- Neha Majithia:** So like we assume it 6% for example if yes, then the market size rise at somewhere around ₹2000 or ₹2200 Crores five years back that is way back in FY 2008-09 so now with the investment cycle already turning around and taking an uptake do you still expect the national gear industry to grow by 6% percent per annum every year for next five years, do not you think that is a very less growth we are projecting in?



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L. Ramkumar: So long as the industrial growth is there, there will be growth in gear boxes also and there will be some replacement demand.

Neha Majithia: Why I was asking was because your peer companies like Elecon Engineering and other companies they are mentioning in the annual reports that the gear manufacturing market in India is estimated to grow at somewhere around a CAGR of 10% over a period of FY 2013 to 2016?

L. Ramkumar: That is their estimate. We do not know.

Neha Majithia: The company is more into customized gears especially for sectors like steel, cement, power etc., so how do you see demand coming from going forward from these sectors because these are most likely the investment cycle which when they rebound these sectors also pickup so how do you see demand going forward from these sectors?

L. Ramkumar: If these sectors pickup, our demand also will pick up.

Neha Majithia: Everything happens moves very slow pace with these sectors that we talk about for particularly in mining, steel, cement?

L. Ramkumar: I cannot predict the various sectors of the economy. I think you people are more qualified from meeting so many industries and investors. So probably I would request if the moderator is there we take some other questions from other sectors. We would like to take that.

Moderator: Thank you. The next question is from the line of Arvind Subramaniam from IDFC Mutual Fund. Please go ahead.

Arvind Subramaniam: Good afternoon. Just referring to one your BSE announcements on increase in borrowing powers of the company could I just get some clarity in terms of why exactly and do you still stick to your net debt to equity target which you have already stating in the past two years or has that changed?

L. Ramkumar: Actually that was an enabling resolution. Total debt equity we are at 1.1 around the same level we have been maintaining the last quarter also.

Arvind Subramaniam: This includes long and short term including working capital?



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- L. Ramkumar:** Yes, we have been looking at the capex and other things in the next year. We have fairly good headroom but we wanted to have a leeway because this was fixed a long time back as you might have seen in that resolution. There is nothing very urgent that we are going to raise because of this.
- Arvind Subramaniam:** What was the borrowing power in the past and what is it been increased to and why would you go through this? I mean is it also linked to the amount of fixed assets and working capital?
- Arjun Ananth:** In 1994 we had passed a resolution which gave us the power to borrow what is called free reserves and share capital plus ₹250 Crores. So we just changed the resolution this year to give us a networth plus ₹400 Crores. So the reason we did that was more of an enabling resolution so that when we borrow money to repay money we do not run into that limit. We have some debts coming due this year. That is all. We have no plans to add to the debt equity ratio. We hope to maintain that in this range.
- Arvind Subramaniam:** So as of now it is networth plus ₹400.
- Arjun Ananth:** Yes now that is only.
- Arvind Subramaniam:** Just the other piece, I joined a little late you might have touched upon it the investment in share capital of Cauvery Power?
- L. Ramkumar:** As per regulation if you are shareholder of power producing company you can get power into the operating company, which is the shareholder, at a particular rate. There has been some change in the power rules in Tamil Nadu by which purchase of private power from outside has become more expensive whenever we have a power cut, so if you are a shareholder you can draw power at a lesser cost. This is the current rule, so based on that we are getting some shares in this company by which we will be eligible for a certain percentage of power to be drawn to bring down our power cost.
- Arvind Subramaniam:** So this will be a minority stake?
- L. Ramkumar:** Yes it is a minority stake, very small.
- Arvind Subramaniam:** Fair enough Sir. That is it from my side.



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- Moderator:** Thank you. The next question is from the line of Romil Jain from Quantum Advisors. Please go ahead.
- Romil Jain:** Good afternoon Sir. Just a few questions, one is on the realization side. So over the last nine months what we have seen, so what kind of realization or price increases that we have done across let us say cycles, engineering and your metal form products on take into three broadly?
- L. Ramkumar:** Cycles we have definitely done price increases in the last nine months.
- Romil Jain:** How much would that be?
- L. Ramkumar:** We have been able to recover the cost increase basically the steel price increase which happened recently. In the case of other metal form products we have not been able to get an increase. It is still in the process of negotiation with the various customers.
- Romil Jain:** So over there was that any major cost increase?
- L. Ramkumar:** Everywhere it is steel. Actually steel and a bit of power which I was mentioning that is the major input cost increase.
- Romil Jain:** So over there that part of increase that we have not been able to still?
- L. Ramkumar:** Yes right.
- Romil Jain:** Secondly just one question, so we have these metal form products as a category so we have three sections in that doorframe, railway section and chains, so broadly if you can just tell me how much would be the revenue breakup of these three categories in the metal products?
- L. Ramkumar:** We have been combining these for some reasons but I can tell you.
- Romil Jain:** Just ballpark if possible.
- L. Ramkumar:** Can I send to you?
- Romil Jain:** Yes so the other was what kind of investment do we expect in the Cholamandalam Insurance and investment and finance?



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- L. Ramkumar:** Now I am ready with the previous question. I will answer that. So Cholamandalam Insurance, we think the requirement of funds is not going to be high because the base of investment is high enough. In the case of finance we have not been investing as you have seen in the last couple of quarters. Right now, the capital adequacy ratio is pretty good so we do not foresee any immediate investment coming from our side.
- Romil Jain:** So in the near future at least no much major investment is required?
- L. Ramkumar:** Yes correct.
- Romil Jain:** Sir on the capex side was the other question apart from the other metal formed breakup that I want so what kind of capex we expect in next two to three years? I am asking for a little longer term basis.
- L. Ramkumar:** Coming year 2014-2015 we will be in the range of ₹150 Crores to ₹200 Crores, ₹200 Crores maybe. It is the spillover of the large project we have taken up, beyond that we are just working out. We would finalize in the month of March, if there is a major expansion it will go up, otherwise normally our normal capex is in the range of ₹75 to ₹100 Crores.
- Romil Jain:** So that is maintenance Capex around ₹75 Crores?
- L. Ramkumar:** Correct. Now talking about the metal form products we can say 65% is chains, 24% is doorframes and other things and another 11% is fine blank parts.
- Romil Jain:** So the railway sections come under which category?
- L. Ramkumar:** Yes, railway section has become very insignificant now.
- Romil Jain:** Very small, so the balance 11% that you told is in what?
- L. Ramkumar:** Fine Blanking.
- Romil Jain:** Secondly Sir if for let us say for chains and for doorframes would it be possible to give you know just a ballpark realization what kind of realization do we get on that?
- L. Ramkumar:** Very difficult because all kinds of shapes and sizes.



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- Romil Jain:** So on a blended basis would be possible that chains out of whatever million sets or million feet that we sell over the realization?
- L. Ramkumar:** We have not given this in the past. So I have to get it organized. We have industrial chains, automotive chains, spare parts, some are sold in kits. We will have to break it and then add all these things and give you that number.
- Romil Jain:** Sir just last question that I have is let us say these three cycles, engineering and metal forms broadly if you see on a sustainable basis what kind of EBITDA margins over a longer term do we expect that, these will be sustainable going forward?
- L. Ramkumar:** Good question. I think our sustainable EBITDA margin should be at the current level plus something, because there is some scope for improvement in terms of cost reduction and some new products in all the areas. I am not able to put a number. I think in my view it should not go below this because as I told you we have not had some price recovery. So, once that comes in place then I think our margin should only be better than what it is now.
- Romil Jain:** So basically whatever they are today that is a sustainable level right?
- L. Ramkumar:** Yes I think so we can definitely say that.
- Romil Jain:** That is it from my side. If I have anything, I will just join.
- Moderator:** Thank you. The next question is from the line of Farzan Madon from Axis Capital. Please go ahead.
- Farzan Madon:** Sir, in this quarter we paid a tax rate which roughly comes to around 40% so why exactly would that be?
- Arjun Ananth:** Farzan we expect the tax rate to be higher in the coming quarters, as we do a tax planning for this year and for next year, we find that few of the allowances have come down. So therefore we are providing a little high to be on the safer side. But I think for the year you can expect a tax rate of about 32.34% this year.
- Farzan Madon:** Sir, in the cycles while the long term sustainable margins would be somewhere close to 5% this quarter has been lower than 3% so can we attribute that to standard cycles?



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- L. Ramkumar:** Yes I think the movement of specialty cycles was not as high as we expected during the quarter and as you know the normal season for us is from say March to September-October, From, November to February it is standards and so that has definitely had some impact. Second even though we mentioned we increase the prices to some extent we are not able to recover the full increase of all the cost. So that has had some impact. I think going forward we should be able to come out of this.
- Farzan Madon:** So in 2015 we can expect somewhere close to 4.5% - 5% plus margins?
- L. Ramkumar:** It should be better than current percentage I think.
- Farzan Madon:** Sir and one question on the insurance front is that our PBT this time has been lower year-on-year of course this time we have taken ₹13 Crore hit so what was that comparable last year in the same quarter?
- L. Ramkumar:** I do not remember the exact claim and in which quarter.
- Farzan Madon:** No problem. This I was saying because of the write offs, is it because that PBT is lower because of the write offs that we took this year?
- L. Ramkumar:** Yes the ₹14 Crores of Motor Pool claim which is declared by the industry is not entirely under our control.. We can get that information for you. It is not a problem.
- Farzan Madon:** Sir what is the capex that we have incurred so far this time, this quarter so far I mean for the nine months?
- L. Ramkumar:** So far we have done ₹137 Crores.
- Farzan Madon:** The debt level will be close to ₹1100-₹1200 Crores?
- L. Ramkumar:** Excluding short term?
- Farzan Madon:** Total including short term long term?
- L. Ramkumar:** Including short term long term its roughly ₹1380 Crores.
- Farzan Madon:** Sir and in segment three I must say that the margins are substantially improved so are these sustainable because we have been able to pass on cost or is it a one-time phenomenon?



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L. Ramkumar: One is in engineering division probably we are able to pass on the cost. In the metal form we are yet to recover fully as I mentioned to you. Second, is I think we have had some good improvement in internal efficiencies like cost reduction which is to some extent sustainable. Overall, I think there are some upsides which are yet to come and there could be some minuses and margins may not go down I think.

Farzan Madon: That is it from my side Sir. Thank you.

Moderator: Thank you. The next question is from the line of Abhishek Jain from Investwell Agents. Please go ahead.

Abhishek Jain: Good afternoon Sir. I would like to ask some few more questions on Shanti Gears. Can I ask Sir? Actually, as far as I understand that most of the gear demand in India is being met through the imports I mean the import content is quite substantial in meeting the industrial gears demand in India, so sir what are your plans for the to replace or substitute those imports the indigenous manufacturing from Shanti Gears and since the depreciation of rupee has also made exports very competitive so what are your plans on this?

L. Ramkumar: See you are right. There is a significant portion of imports into India because there are some very critical gears and gearboxes. What we are looking at is to look at two three verticals where there are players from overseas who wants help from local manufacturers to make some part of the gearbox in order to bring down the price.

Abhishek Jain: Because as far as I understand in the previous couple of conference calls you have indicated of tying up with the global manufacturers in India technological tie-ups and others so what is the update on that?

L. Ramkumar: We have signed NDAs Non Disclosure Agreements with three people. So with that we are studying the market to do feasibility study of what can be made here and what can be done overseas. As this comes to a conclusion we will know how much of it we can make here and what will be the increase in our business.

Abhishek Jain: By what time we can expect this, the good news?

L. Ramkumar: This good news you can expect in nine to 12 months time.

Abhishek Jain: One more thing Sir, couple of more questions Sir. One important question is that we are having quite a good cash flow in this Shanti Gears and also having a good cash position and



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in the past years Murugappa Group is very attributive in nature they acquire quite good companies like they have done with Tube Investment and Cholamandalam and CUMI International and everything, so what are you plan to utilize the cash in Shanti Gears Limited?

L. Ramkumar:

At the moment we keep it safely till we find a good opportunity.

Abhishek Jain:

Are we looking for any good opportunity on this?

L. Ramkumar:

Yes, whenever there is a good opportunity, which will be helpful to improve our product range or technology, we will definitely make use of this cash.

Abhishek Jain:

Because I also understand this gear manufacturers are not very big in size so with the European, companies in Europe is sort of because of a national clients and everything technology is available in Europe to be acquired so any plans that you are looking in that?

L. Ramkumar:

I do not agree with that. You cannot say gearbox manufacturers worldwide are very small. There may be one or two niche companies but which are the companies in Europe which are all available for sale I do not know. There is no company as such I have heard of but we are on the lookout and if anybody wants us to invest for a tie-up etc., we are prepared to do that.

Abhishek Jain:

What are our Capex plans in Shanti Gear for the next couple of years and one more thing Sir, presently, you have answered know but I was like urgent some discussion on that that Indian gearboxes market is very small only ₹3000 Crores and I also think that out of this ₹3000 Crores most of the majority of this is being met through the imports as well out of this ₹3000 Crores market it is additional is served by the import of gears and as far as I understand that global consultants are saying that we are going to grow 6% per annum over the next few years, so Sir, is not it that looking at China though the China was 10 years to 15 years back they were just a couple of billion dollar market and the 15 years they have grown to \$30 billion and in the next five years the same consultants are projecting it to be \$45 billion market. So what are the prospects for India? What do you think on this, over the next five years or 10 years, what can be the opportunity?

L. Ramkumar:

The opportunity in India is huge as everybody says, but what actually happens is what you know. So if there is a growth in the Indian Industry there will be a growth in gearbox and gear business. Also there is an opportunity for us to export selectively. Wherever people are finding it cheaper to buy from us because of the currency. We are also looking at giving



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specific parts, may not be a gearbox, may be some gears, may be some casings, so this is how I think we will look at the future.

Abhishek Jain: Sir one more last thing a sort of clarification again, would it be safe to assume that Tube Investment is the holding so far and Shanti Gear is not going to be merged with this company?

L. Ramkumar: That is the correct fact as of today.

Abhishek Jain: Would you have any plan towards the metal forming or the other division with Shanti gears to get some synergy sort of?

L. Ramkumar: There is no plan I am aware of. We do not have any such plans now.

Abhishek Jain: Thank you very much.

Moderator: Thank you. The next question is a follow up from the line of Farzan Madon. Please go ahead.

Farzan Madon: Sir in the large diameter pipe plant like when are we expected to start?

L. Ramkumar: June end or early July 2014.

Farzan Madon: Fine and with that the profits again should improve hopefully?

L. Ramkumar: When we start the plant profit has a tendency to improve. It does not improve immediately. We will have to stabilize the plant, start commercial production, supply, and increase the volume and then slowly ramp up.

Farzan Madon: That is it from my side. Thank you.

Moderator: Thank you. The next question is from the line of Bhagyesh Kagalkar from HDFC Mutual Fund. Please go ahead.

Bhagyesh Kagalkar: Good afternoon Sir. Just clarification on the capex, how much capex is happening this year next year you have stated ₹200 Crores?

L. Ramkumar: ₹230 to ₹240 Crores.



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- Bhagyesh Kagalkar:** The next year plants are full ready for running?
- L. Ramkumar:** The main expenditure is in the large diameter plant which we are setting up. A major part of it will be spent this year and the balance will be spent next year.
- Bhagyesh Kagalkar:** Okay what is the total capex now on these two plants?
- L. Ramkumar:** In this plant, the total capex is ₹250 Crores.
- Bhagyesh Kagalkar:** Thank you Sir. All the Best.
- Moderator:** Thank you. The next question is the follow up from the line of Abhishek Jain from Investwell Agents. Please go ahead.
- Abhishek Jain:** A couple of more questions Sir, if there is nobody else to ask can I go ahead with my questions on Shanti Gear?
- L. Ramkumar:** Yes I think the decider of all this is the moderator. I am here to answer your questions.
- Abhishek Jain:** Thank you. How much of our revenues are coming out of replacement market?
- L. Ramkumar:** See, just now I mentioned, I do not know whether you are in the call, right now I do not have a very clear breakup of replacement, OEMs, spares and all that but we will develop the database and then I will let you know.
- Abhishek Jain:** What sort of capex have we done in the last one year I mean in the ongoing year the nine months?
- L. Ramkumar:** Are you a specialist in Gears?
- Abhishek Jain:** No Sir. I am tracking Shanti Gears.
- L. Ramkumar:** I think we have done some may be ₹1.5 Crores or ₹2 Crores of capex.
- Abhishek Jain:** So going forward also we will not have too much of it requirement for capex in this company?



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L. Ramkumar: We will do may be ₹5 Crores every year unless we go for a major expansion or a new project or totally new product.

Abhishek Jain: Not a problem. And sir what is your current capacity utilization for Shanti Gears?

L. Ramkumar: May be 35%.

Abhishek Jain: Only just 35%?

L. Ramkumar: 35% to 40%.

Abhishek Jain: Sir I am done with my questions.

Moderator: Thank you. The next question is from the line of Akshay Shah from Quest Investment Advisors. Please go ahead.

Akshay Shah: Good afternoon Sir. Sir my question is basically you said that in metal form products you are about 60% is chains and about 30% is auto related so in there we have got Tata and Tavera, I suppose so with so many companies coming in India for this auto setting up shops over here for their export market also, so now how you really want to derisk this auto business basically and just not relying on two customers and going for more customers my first question is that? The second question is that you said that large diameter tubes plant will be starting in somewhere in July 2014 so it has to be stabilized then ramped up and all the supplies to be made in quality so when you think that in that plant will start making profits basically, I would say at EBITDA level as well as at net level? These are my two basic questions?

L. Ramkumar: See the large diameter project will start making operating profit from the time we start manufacturing. Only if you talk about recovering fully depreciation and finance charges it may take six months to nine months.

Akshay Shah: Okay Sir that means you mean to say that from FY 2016 onwards it will be profitable?

L. Ramkumar: Yes, at PBT level, You asked about doorframes. See the doorframes is not only two customers. We have we supplied to Maruti, Hyundai, Tatas, General Motors and some channels we supply to Toyota and Nissan. For Mahindra also we do doorframes. The point



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is doorframe as a project itself depends on the model of the car. So some people like Maruti and others have reduced their dependence on doorframe and are going for integrated doors. So the market itself has shrunk to that extent. People like Toyota, Hyundai and others have continued with it, but there are some people who are importing. So the market size is not growing substantially. So what we are planning to do is we are seeing maybe if the business is coming down, whether those facilities can be consolidated in a few locations instead of having so many locations and we can use the real estate for other businesses like tubes or chains or something like that. That is the plan going forward. It is very difficult to export this product because these have to be set up very close to the plant. That is why we have six or seven plants for this.

- Akshay Shah:** But in that case when you consolidate it then logistics will not be the issue because these customers continuing as a business with you, do not you think logistics will be an issue?
- L. Ramkumar:** Yes but the volumes are coming down so maybe we will have to incur some cost in the logistics and charge the customer.
- Akshay Shah:** So the trade off will be better even after incurring the logistic cost also you mean to say?
- L. Ramkumar:** Logistics will be high. That is why we did not think of doing it from one location. Probably the logistic cost may be little high but it is variable cost.
- Akshay Shah:** But the fixed cost will go away if the plant running fixed cost will go up?
- L. Ramkumar:** To be frank with you it is all in our thinking. We are talking to the customers and they will have to agree also.
- Akshay Shah:** Of course but when do you think that, that thing will get crystallized?
- L. Ramkumar:** I wish you give me the answer. We have started this six months back. In six months time we will be able to get some clarity.
- Akshay Shah:** But apart from this consolidation does it have this kind of setup or infrastructure what you have got you can put into some other product or something is it possible for you to do something?
- L. Ramkumar:** Yes. Relatively the doorframe outfits are much smaller than say tubes and chains but we make lot of tubular components for example.



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- Akshay Shah:** Where do they find application into?
- L. Ramkumar:** The steering column, side impact beam, those kinds of things so these manipulations post tube making can be made in smaller locations which can be an advantage.
- Akshay Shah:** So that means you will be enhancing your portfolio apart from doors?
- L. Ramkumar:** Value added things you can do in these.
- Akshay Shah:** In that case the export market can be viable proposition?
- L. Ramkumar:** Export is difficult.
- Akshay Shah:** For those products also tubular components also?
- L. Ramkumar:** Yes because see there is still a technology gap between India and overseas. There are many parts which are done differently for the overseas markets.
- Akshay Shah:** But I have been tracking Tube Investment for a long time and I know that we are R&D company may be it may not be in a very public domain all that but we have got a strong engineering base so cannot we do India been emerging as a sourcing base for the good quality auto components so do not think we can do that may be with some investment will be required, which we can do, do not you think Sir we can do that?
- L. Ramkumar:** First step we are trying to exports more tubes with some minor manipulations like cutting, with the currency also being favourable now there could be an opportunity there.
- Akshay Shah:** So you mean to say you will concentrate more on the tubes rather than tubular components?
- L. Ramkumar:** We feel there is a good opportunity going forward.
- Akshay Shah:** So when do you think this consolidation happening hopefully and all, particularly within that segment of metal pump products doorframes business?
- L. Ramkumar:** I hope within the next end of financial year we do all this so that we are clear.
- Akshay Shah:** It will start showing the results?
- L. Ramkumar:** Definitely.



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- Akshay Shah:** My question was that you said the large diameter project cost was some ₹250 Crores I suppose?
- L. Ramkumar:** Yes.
- Akshay Shah:** ₹160 Crores we are investing this next balance next year?
- L. Ramkumar:** Correct.
- Akshay Shah:** Thanks from my side.
- Moderator:** Thank you. There are no further questions from the participants. On behalf of Axis Capital Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.