"Tube Investments of India Limited Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Tube Investments of India Limited Conference Call hosted by IIFL Securities 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, please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anupam Gupta from IIFL Securities Limited. Thank you and over to you Sir!

Anupam Gupta: Thanks Robin and welcome everyone for TI's Q1 FY2024 results conference call. From the management, we have Mr. Vellayan Subbiah, Executive Vice Chairman, Mr. M A M Arunachalam, Chairman, Mr. Mukesh Ahuja, Managing Director, Mr. K. R. Srinivasan President and Whole-Time Director for the Metal Form Product business, Mr. Murali, Senior VP and Head of the TPI our engineering product business, Mr. N. Govindarajan – CEO, 3XPER Innoventure Limited, which is a CDMO venture for TI, Mr. AN Meyyappan, the Chief Financial Officer and Mr. K.K. Paul would be joining us in sometime who heads the TI Clean Mobility business. I will hand over to Mr. Vellayan for the opening comments post which we can have the Q&A. Over to you Sir!

Vellayan Subbiah: Thank you and good morning everybody. The Board met yesterday and approved the financial results for the quarter ended June 30, 2023. The revenue for Q1 was 1780 Crores compared to Rs.1957 Crores for the same period last year. PBT was 198 Crores for the quarter as against 180 Crores in the same period previous year and ROIC annualized was at 56% compared to 51%. Free cash flow for the quarter was Rs.97 Crores.

I will go through the businesses. The engineering business basically had revenue of Rs.1142 Crores compared with Rs.1244 Crores; this was more because of pricing of steel as a predominant factor for that, PBIT for the quarter were 135 as against the 118 Crores in the corresponding quarter last year. The metal form product had revenue of Rs.342 Crores compared with Rs.335 Crores and PBIT was at Rs.44 Crores as against Rs.38 Crores. We have had weakness in the cycles business which had revenue of 187 compared to 246 in the corresponding quarter and PBIT was at 2 versus 9 the corresponding quarter in the last year and other businesses the revenue was 178 compared to 223, PBIT was at 16 versus 17 in the same quarter last year. On a consolidated basis revenue was at Rs.3898 Crores as against Rs.3776 Crores in the corresponding quarter last year and the profit (before share of profit) of an associate/joint venture/exceptional items and tax for the quarter was at Rs.396 as against Rs.336 in the corresponding quarter of the previous year. CG Power had consolidated revenue of Rs.1874 Crores as against Rs.1643 Crores and PBT was at Rs.263 Crores as against Rs.167 Crores. Shanthi Gears had revenue of Rs.121 versus Rs.99 and the PBT was at Rs.24 Crores as against Rs.18 Crores. Commenting on the financial results, Mr. M.A.M. Arunachalam, Chairman said the company has witnessed a steady performance during the quarter though the mobility division was affected by sluggish market engineering and metal form registered good profits driven by good growth in the auto industry and performance of our subsidiary CG Power and Shanthi has been very encouraging with strong topline and bottomline growth. Our electrical vehicle business is making steady progress and we expect revenues to pickup in the coming quarters. We have now partnered with Jayem and incorporated a new subsidiary to foray into electric small commercial vehicles. With this the company would be equipped to serve the full spectrum of manufacturing electric vehicles for commercial use. So let me stop with that and happy to turn it over to all of you for questions. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. Ladies and gentlemen we will wait for a moment while the question queue assembles. The first question is from the line of Abhishek from DSP. Please go ahead.

Abhishek: Thanks for the opportunity. Sir just couple of questions, just wanted to understand around the margin element if you see on a quarter-on-quarter basis you have seen some deterioration in gross margin and if you look at the engineering division there is some margin deterioration on a sequential basis is it related to product mix or price hike has not been able to pass on if you can just help us understand the reason for that?

Meyyappan: Actually for Q4 Rs.1000 Crores is the turnover and Rs.131 Crores is the PBIT and for the current quarter this Rs.1141 is the sales and Rs.134 Crores is the segment PBIT.

Vellayan Subbiah: So there is a slight margin drop on engineering.

Meyyappan: Maybe because of minor mix issue.

Vellayan Subbiah: Somewhere it could be mix but there is no major kind of indication there is any kind of drop on the margin side.

Abhishek: I was just trying to understand that is it related to exports being lower because that typically will be better margin some of those elements I just first trying to understand on that aspect and how is the exports overall because that is something one has seen weakness overall because the demand conditions in the overseas market has not been great so how is the exports done for us in the engineering part of the division?

Mukesh Ahuja: Exports have improved over previous quarter. Previous quarter we were at 13% of the exports overall for TI and now we are at 15% but however in the industrial chains business which particularly for the Euro there is some weakness we are absorbing it there but overall at the TI level we feel we will be able to grow export.

Abhishek: Sir if you can just talk about the EV where are we in terms of the timelines how are you seeing the traction, reported marginal revenue in the current quarter if you can just help us with an update on that and that will be helpful?

Vellayan Subbiah: EV again right away one of the things that we do not want to do and I have said this before also EV is going to take a little bit of time to pickup. We do not want to get into this quarterly cycle because it is going to be very difficult kind of then expectations will build up kind of unrealistically. I do think like we share it before it will take time to pickup so our only request is that if you can kind of give us that time so we can because it is building four new businesses right and so kind of that process will take some time, so our only request is give us a little bit of time on that. The new business is very difficult that we put them on quarterly pressure too quickly right and I do not want to get into that habit of forecast.

Abhishek: I appreciate that, that is very fair. Sir just in terms of the railways part of the business that is something we were expecting that part of the business to pickup having been dull for some time, any improvement are you seeing there in terms of entering or ordering just an update there will be helpful?

K. R. Srinivasan: Railways the tenders have started coming last month end onwards and we hope to get orders end of Q2 we hope to get orders and schedule from railways.

Abhishek: Just one thing on the engineering part of the division the decline that one has seen on the topline you mentioned in your opening remarks it is because of steel prices, so if you can just broadly help us understand what would have been the volume growth because that will just help us kind of better understand the segment?

Meyyappan: Volume growth is around 6%.

Abhishek: So all of the decline has come in from about 14% to 15% of realization okay got it. Thank you so much. I will come back in the queue.

Moderator: Thank you. The next question is from the line of Jinesh Gandhi from Motilal Oswal Financial Services. Please go ahead.

Jinesh Gandhi: Couple of questions from my side. One is on the exports are we now seeing some stability in broader exports because that is one area not just for tubes but for broader exports were impacted so are we seeing some stability now coming or we are still in the inventory destocking mode on the export side?

Mukesh Ahuja: Yes. We expect this year will be better for exports that is our estimation. This quarter is also better and next quarter also we see a little better than the previous quarters.

Jinesh Gandhi: The sales exports have improved from 13% to 15% this is YOY or QOQ?

Mukesh Ahuja: That is right 13% to 15%.

Vellayan Subbiah: Is it YOY or QOQ?

Mukesh Ahuja: QOQ

Jinesh Gandhi: Got it. So clearly you are back on that and second question pertains to the electric trailer and truck business we are now in process of rolling it out and I think the new facility the truck is also ready so are we started to take orders on a commercial basis now and if yes what would be the traction in the order book look like?

Vellayan Subbiah: Just started on three wheeler and Jinesh this is again kind of even the previous question was there on electric, the thing I would continue to request is that you give us a little time to build those businesses because getting on a quarterly mindset for new businesses is very difficult right and getting on predictable quarter-on-quarter performance but we do have orders on the three wheeler and we have just started taking orders, we have got over 1000 orders on that product, but it is like I said it is still very early days on both products and so we have also started taking orders. We have started doing giving the truck to customers on trial so I think most of this quarter will just be, will go on as getting customers to trial the heavy trucks so I wanted to be very cautious on revenue guidance on that business.

Jinesh Gandhi: The new plant is up and ready right the 1000 units per annum for truck is up and running?

Vellayan Subbiah: Yes. It will be more like 3000 to 3600 units an annum and yes that plant is now ready.

Jinesh Gandhi: Got it. Thanks and all the best.

Moderator: Thank you. The next question is from the line of Vipulkumar A Shah from Sumangal Investment. Please go ahead.

Vipulkumar A Shah: Thanks for the opportunity. Sir just wanted your views on our diversification in CDMO and surgical space when there is lot of headroom for us to grow in engineering space, so what is the rationale just trying to know your view Sir?

Vellayan Subbiah: We have kind of articulated this perspective of TI1, TI2 and TI3 now for at least three years plus. What we actually see is and again the perspective we took is we derived a bunch of set of filters that allowed us to look at businesses that we think are going to have secular growth in India over the next at least 20 to 25 years and have a sustained growth over that period of time. Now if you see India there are a set of white spaces that have not been filled, right and those spaces as you probably know manufacturing forms about 14% of India's GDP. It is a bit under manufacturing bit under 400 million and everybody has been in a traditional set of sectors right and those are the sectors that will continue to grow at a particular organic rate, but everybody if you look at what is happening to India there are a set of new sectors that are beginning to open up, which are beginning to grow at and will be required for India's growth in the future, right. So you know the surgicals is more focused on the domestic market to start with and then export. So we have a set of businesses where we are focused. Most of our businesses I would say are focused on first getting an established position in the domestic market and then following that up with export opportunities as they arrive with the exception of CDMO, which I will kind of talk to in a minute. So when you take the surgicals business one of the things we have stated for a while is that both medical devices and consumables are predominantly imported into India and we think that there is going to be more indigenization in the manufacture of these products, so we see that as a significant opportunity. The largest players are still foreign brands and then we see an opportunity for more and more indigenization. The second thing is that healthcare is a percentage of GDP is definitely going to go up, right. So from a manufacturing company perspective, obviously it makes more sense for us to manufacture consumables and devices versus thinking of it as a services claim. So as healthcare expands we do believe that there is going to be an opportunity in this whole business like surgicals to both expand market share of domestic players like ourselves and also play into a market that is growing much faster than our traditional engineering businesses, so that is the logic for surgicals. The logic for CDMO again we see this space in a very nascent position right now that you know all the Western world will continue to kind of send a lot of this business there was a lot of it going to China and kind of the Indian space just beginning to pickup, so we see it as kind of a growth industry as we look out the next 20 to 25 years and so we see that as a significant opportunity for us. In addition to that in that business most of it was going to China and the Western world is increasingly going very offending that business to China because of concerns around intellectual property protection. So this whole China plus one strategy is a strategy that we see playing into that business as well. Govind is also on the line I believe and Govind I do not know if you want to add any commentary in terms of what you prospectively see for the CDMO business, but that is from a vertical selection perspective that is the logic and Govind perhaps would you like to add something on the vertical.

N. Govindarajan: No you already covered it Sir.

Vellayan Subbiah: Sure thank you. I hope that answers your question.

Vipulkumar A Shah: Yes, Sir. So related question, so we have this three wheeler electric trucks, CDMO then surgical so what will be our pick that because these all businesses will take time to scale up and to come to profitability so should we expect a sharp jump in debt over the next 2-3 years?

Vellayan Subbiah: Sir this also we have articulated several times that the peak debt that we will allow is two times annual free cash flow. Right now we are still running at debt less than networking capital. The good thing is that at least kind of from our perspective and just to give you a sense obviously kind of the way we look at it is we are very focused on both capital allocation and capital efficiency, which is why for the surgicals business we basically partnered up with Premji to kind of reduce the capital outlay for us and for the electric vehicle business also we partnered up and taken Rs.1200 Crores from multiples again to basically reduce potential capital burden on us so we are very conscious of that and like I said again we have stated several times and we will adhere to that and that the peak debt will not exceed 2 times annual free cash flow.

Vipulkumar A Shah: That is very reassuring. Thank you Sir and all the best.

Moderator: Thank you. The next question is from the line of Vimal Jamnadas Gohil from Alchemy Capital Management. Please go ahead.

Vimal Jamnadas Gohil: Yes Sir. Thank you for the opportunity. The question is regarding engineering business. Sir you mentioned that we have taken our pricing corrections so our most of the pricing corrections done here or is there some pass through left which can be probably seen in the subsequent quarters?

Vellayan Subbiah: I just want to be clear, right, I think corrections is the wrong language to use kind of in general kind of what we do in the engineering business is more of a conversion business where there is basically automatically therefore a correction for steel pricing, so it is not like we are trying to kind of correct our price it ends up being kind of a structure that we always had with the OEMs in that business.

Vimal Jamnadas Gohil: I should have used the word better, apologies but do we see the volume growth and pricing growth getting normalized going forward is what I meant?

Vellayan Subbiah: So the volume as we look we are running close to capacity, but we are expanding capacities as our capacity expands we will continue to receive volume growth in that business, right. We see very good demand especially in the large diameter business and exports are beginning to pick up and on the domestic business, so as we expand capacity, volumes and business will continue to grow. As far as pricing is concerned, pricing is always kind of negotiated between the OEMs and us and it is only the steel price that is basically kind of in effect kind of a pass through.

Vimal Jamnadas Gohil: That is it. Thank you so much.

Moderator: Thank you. The next question is from the line of Anika Mittal from NVEST Analytics. Please go ahead.

Anika Mittal: Sir my first question is what is the growth outlook for the next three years?

Vellayan Subbiah: What is the growth outlook for next three years?

Anika Mittal: Yes Sir.

Vellayan Subbiah: I think broadly in terms of the TI1 the current businesses we believe it will be kind of getting closer to 15% kind of in the TI1 current business.

Anika Mittal: How much capex company has incurred in the quarter FY2024?

Meyyappan: 70 Crores for the quarter.

Anika Mittal: For all the businesses like EV business?

Vellayan Subbiah: TI1 businesses.

Anika Mittal: For EV business?

Meyyappan: This quarter we have spent around 20 Crores.

Anika Mittal: Thanks.

Moderator: Thank you. The next question is from the line of Anupam Gupta from IIFL Securities.

Anupam Gupta: I have questions on the two ventures which you announced in this quarter with Jayem auto so firstly if you can talk slightly on the current and longer term plan for eSCV business and what will Jayem play a role in that and similarly on the R&D sort of joint venture which we have done how will that benefit in terms of the backward integration which is targeted if you can just maybe talk about that?

Vellayan Subbiah: Sure. Jayem is predominantly been an R&D shop and they are the leading R&D shop in India for automotive so they have already developed a prototype for us on the small commercial vehicle and that prototype we are going to go into homologation hopefully by the December, January timeframe and by first quarter next year maybe late first quarter next year we hope to basically go to market with that product. As we kind of grow our presence in EV we need significant R&D and therefore we see them as a good partner in that journey from an R&D perspective. They are also keen in specifically kind of participating on the production and go to market journey in the small commercial vehicle, so that is why we have the TI Volt subsidiary which basically they have a 20% share in and we have an 80% share. So I hope that gives you some color in terms of the natural relationship.

Anupam Gupta: Sure. Is it more towards let us say if I want to talk about you had earlier about the BMS part looking at integrating BMS in-house and other things in-house is that where this R&D JV is?

Vellayan Subbiah: Absolutely. So one of the areas definitely we will start focusing on with them is what I would focus on E&E integration, to start with like we said India is going to import and we will import or work with foreign technology for most of it, but we do see the opportunity to first get into integration components but then at a later stage get into the components themselves and yes that is definitely part of the intent as we move forward with Jayem as well.

Anupam Gupta: One of the question now that you have almost the entire gamut of products all will have the entire gamut of products on the productive side of EV how do you see this helping you in the distribution side of it so is it possible that a single distribution channel for everything or how do you look at that aspect over the let us say medium term, how do you develop that?

Vellayan Subbiah: So no, there definitely would not be a single distribution channel for everything. I think, in truck business we are starting off in a direct model, so without dealers and distributors because a lot of the sales are heavily kind of B2B versus B2C and it requires a significant transformation in terms of thinking in the way the business is approached. So I would Anupam will come down to kind of three sets, kind of one which will be kind of more retail which is starting with urban and suburban which will be for the three wheeler and the small commercial vehicles though they were both developed independent dealerships, the tractor side is going to be more ruled by nature and therefore will also have dealers and the 55 ton side, the truck side will be direct.

Anupam Gupta: Understand and one small question although not directly so basically for the CDMO side of it there was one small announcement which had come in not from you but from the customer side in terms of partnership for some supply of technology was it something meaningful or if you can maybe give a picture on that?

N. Govindarajan: You are talking about the announcement from Anupam.

Anupam Gupta: Yes.

N. Govindarajan: That is related to continuous process of flow chemistry and we have created that because we have successfully established the flow chemistry and continuous process and agrochemical and now we are collaborating with them to get that technology into pharma products and whichever pharma products we are working with them that would be exclusive to us and it would be used both for generate as well as for CDMO business.

Anupam Gupta: Understand Sir. Fine. That is all from my side and I will join the queue back sir. Thank you.

Moderator: Thank you. The next question is from the line of Nishit Jalan from Axis capital. Please go ahead.

Nishit Jalan: Thank you for the opportunity. My question is on the standalone mobility business just wanted to understand is there any scope of gaining market share with any of the OEMs where we are not present to the extent we would desire to be here, just wanted to understand how will we do in the core business relative to the industrial growth so what is the scope in terms of new product addition or in terms of gaining market share with certain customers or basically adding new customers altogether when we do not have any presence if you can share some thoughts around that it would be very helpful?

Vellayan Subbiah: So like I think there was a question earlier what we have indicated is that TI1 will grow at about 15% a year right now obviously the question is what is driving that growth. It is predominantly kind of the tubes in the engineering business because that is over 50% and followed by the metal form product division. As far as engineering to your question one of the things that we are developing is first we have developed kind of a North South split where we added capacity on the North and that allowed us to serve the customers in the north. Now we are adding more geographic presence over time on the West as well and we think that kind of adding geographic presence because this does not travel so easily, it is expensive from a logistics perspective. We do believe just kind of getting more into the individual kind of zone will help increase market share in each of the individual areas but also increasing the number of products so kind of as we go more into large diameter but increasing our range there that allows us to serve fuller range of product to our existing customers. We are increasing service levels by providing product to customers whenever we can and that is also increasing our value addition in the mix and obviously export is continuing to increase. So across those four dimensions basically it is allowing us to increase that what we would recall above market growth rate level. I know that hopefully the answers the question.

Nishit Jalan: Yes that answers, so just one clarification. When you talk about 15% growth what is the underlying industry growth that you are kind of assuming I am just trying to understand what is the outperformance that you can do in the core business compared to the industry growth?

Vellayan Subbiah: We said it is difficult to predict what is the market growth is, but we are very committed to delivering this 15% growth and so I talked about the engineering business with you, the answers are similar with the metal form products as well where we are expanding our market share in those businesses so it is an approach we are taking systematically to expand market share wherever we are.

Nishit Jalan: Sure Sir, thanks for that. Just one followup. In the past concalls you have talked about that the TI1 business will grow at high single digit CAGR, but now you seem to be a little bit more confident of growing at mid teens so is it just the low base of the industry that is giving you confidence or do you think that we have introduced some products or you are looking at exports in a much bigger way or some other plans have come up because of which you think that you can grow at a much higher pace compared to what you were thinking maybe a year or so back?

Vellayan Subbiah: No honestly I think in each of the businesses we have kind of revisited why there is not enough opportunity for growth and so each of our businesses are constantly looking at that and it is one of the classic approaches where when you take set of businesses and say what is the opportunity to kind of really grow them. You can take a broader view to market share, the broader view then allows you to say that you do not have as much market share as you thought they did by basically saying that we can get into the more products, more geographies and more customers, right, that is effectively what we have done in each of our businesses, it is very similar to kind of this dynamite approach and what we are doing is taking a more expansive view where we can grow in each business and yes you are right that is allowing us to kind of go more bullish in terms what we think can be achieved in the existing businesses.

Nishit Jalan: Thank you so much.

Moderator: Sir we have one participant who has joined the queue. The next question is from the line of Jinesh Gandhi from Motilal Oswal Financial Services. Please go ahead.

Jinesh Gandhi: Any update on Optic Lens business where are in terms of ramp up are we closing the pilot state soon and evaluating commercial investments there?

Mukesh Ahuja: In this business we are just on the development side of this, we are setting right our processes and even customer is helping us in that and hopefully we will see going forward we will be able to ramp up the production.

Vellayan Subbiah: So Jinesh the answer is that it is still in development right; Mukesh said it requires customer support in helping us bringing it up, right because the technology is fairly complex. So it is tougher to kind of give a determinate answer at this time, but the customer is helping us in the process so we are kind of fairly bullish.

Jinesh Gandhi: Second question is on the railway business. Given so much of focus on government to modernize railway and the Vande Bharat program which is there, how do you see our railway business to ramp up over next two to three years or given three to five year period?

Vellayan Subbiah: So, Jinesh, I think kind of the answer is obviously different for CG and TI to a certain extent right because CG is not in the profile and in loco and TI is much more than in the bodies for the coaches. The CG business we have already talked about on the CG call there is significant opportunity we see there. On the TI side we do see opportunity but the first set that has to happen is that till way kind of releasing these orders which we like we said we expect to start happening at the end of this quarter. There is definitely looks like a lot of demand in terms of what they have to build. We have just not seen that demand hit the ground yet in terms of so that is basically being the challenge that we obviously waiting for at this stage.

Jinesh Gandhi: But like our other TI businesses where we are looking at additional revenues to grow is there scope in TI from the railway sector beyond body or do we look at additional components, our technology and TI as well for railways?

K. R. Srinivasan: There are two areas in which we operate in TI one is for the fabrication assemblies in coaches and the other one is the structural for wagons. Now wagons are also looking up in the next two or three years we also see some upside in the wagon structurals going forward.

Jinesh Gandhi: Got it. Lastly to clarify on the engineering business we talked about expanding capacities so is that beyond large diameter tubes where we are doubling capacity or you are referring to large diameter in tubes mainly?

Company Speaker: So we are adding in all three verticals capacity in engineering which are cold rolled strips, tubes as well as for export business.

Jinesh Gandhi: Got it. Thanks and all the best.

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

Sundar S: Thank you Sir. Sir couple of questions. The first one is on Lotus Surgicals, just wanted to get your sense in terms of how should we look at this because from a couple of years ago or in terms of FY2022 and 2023 numbers that we have seen from the MCA filings to what we have today the business does not seem to have really grown from the Lotus Surgicals perspective so what is the kind of opportunity size I understand there is an important substitution opportunity here but what is the size we are looking at and what really the vision in terms of business?

Vellayan Subbiah: We feel confident that we can deliver more than 20% revenue year-on-year and we can expand margins in that business. Like you said you have got data from MCA filing has been flat a bit, but this is what we definitely believe we can deliver from the business. So you will start seeing that data. For the quarter do we have growth numbers?

Meyyappan: For this quarter the Lotus has done Rs.39 Crores of sales as against the Rs.35 Crores in the previous year same quarter. With respect to the PAT they have done Rs.6 Crores as against 5 Crores in the previous year 20% of the PBT level.

Sundar S: Right Sir. So from a longer term perspective we were to look at this business the opportunity is going to be mainly in distribution would that assumption be right Sir?

Vellayan Subbiah: But we also see export as an opportunity after that and then it is a base business for us so we would see kind of wound care more broadly and so we will have to start thinking of other products we can add. See we are basically developing a foundation on each of these other businesses that we can keep building up on. So it is not like we would just stay in just with the current products as we cannot go forward right.

Sundar S: Fair enough.

Vellayan Subbiah: Sutures will then expand into other wound care products and into other products and in the medical space as well.

Sundar S: I think from our earlier stand 20% is sort of a disappointing number that I locate given that there is so much of nonlinearity opportunity that can emerge from there?

Vellayan Subbiah: Hopefully we will deliver better than 20% numbers. So when we initially give guidance I just want to be conservative because every quarter you will be asking me how much we did so we kind of a bit worried about that. So obviously we would not also get into it we see 15% growth in our base business and only saw 20% and this we would not get into it now. So we obviously see it from that perspective as well. So yes, we are going to see some nonlinear growth yes we definitely believe that. So, it is our perspective is that, like I said part of the challenge is we just got into it like literally two months ago, right. So I do not want to put start putting so much near term pressure saying like let us say I commit like 30% to you or like whatever. So I do not know the next quarter then the question is going to be why did not you grow 30%, right. We are saying we need a little time for some of the new businesses.

Sundar S: Sir in the second part of it again towards TI2 as you would call it in terms of electronics, this is something that a couple of years ago in the AGM we assigned that this is where we are looking at acquisitions or this is where we will start having nonlinearity coming in from, but apart from motion there is nothing that has happened any updates from that side?

Vellayan Subbiah: Yes we continue to explore the sector. It is a sector that we want to be kind of very careful about because whatever first bet we take we want it to be at bet to work right it is the same thing even when medical consumables it took us a while it took us like over two years to kind of get to the first kind of bet that we made and so even if it was something I will tell you kind of now we are going more down the space of it might be Jayem or Greenfield versus kind of doing something like an acquisition in electronics. So it takes a while to identify the right sector, identify within that business. Electronics in itself is a huge ocean and we want to be very clear on the right things we do. So we continue to kind of explore it fairly intensely, but I just think that we are not going to get pressured into doing it at any particular point in time. We continue to kind of, we think there is a lot of growth and when we do it we wanted to be research and have it be the right thing that kind of to get into.

Sundar S: Right Sir and one last one, I just shift the question the other way around to see if we can get more insight should we look at debt repatriation this year given the cash flows that we can generate on the standalone business?

Vellayan Subbiah: Debt repayment?

Sundar S: Yes.

Vellayan Subbiah: No, because like we said they are between kind of the TI2 businesses is enough to kind of and the growth in TI1 right now we are getting 15% growth in TI1 again we want to be careful on saying topline because it depends a lot on steel prices. There is enough to kind of enough good uses of capital first.

Sundar S: So what is the underlying capex that we have gone for the next two years, 2024-2025?

Vellayan Subbiah: Again I cannot be deterministic about it. We have given broad guidance that said debt will be less than two times free cash flow, right. So now you can set a limit as to what the maximum capex can be there for, but the way I have always looked at it this is going to be opportunity driven right. If we see what we have been able to see is if there is significant opportunity. See what we have to recognize as we kind of look out for the next budget. Actually India is going to be capital short for what it needs to do, the number of sectors that have to grow in this country. Right now there is not enough capital to kind of fund, but we are very careful about this saying like I do not want to be so burdened with debt that makes me uncomfortable in the operating business. So which is why you know the approach we have taken with EV or always medical Lotus is that we will work with partners, right. There is capital available right, there are good partners. We want to partner with good people. So where I am centrally kind of driven by what we see as growth opportunities right and again they do not have to be growth opportunities that have to deliver next year or next quarter, right and there is a continuous thing I am continuing to say we have to look at what are the sectors that are going to form a majority of GDP as we look over the next 15 to 20 years okay. You want to start planting seeds in those sectors, right. Like you know if you plant a seed it takes time for the seeds that is what we are focused on this stage, right what are the sectors we want to plant seeds, so that is why I am saying that that can we tell how much right, we cannot tell right, but that is why we think kind of this broad guidance should give you some level of comfort saying that we would not take more than two times net cash flow as the total debt on account to our balance sheets, right.

Sundar S: Right and then my question on capex which is very specific to TI1?

Vellayan Subbiah: TI1 continues to generate cash, every year it has generated cash and continue to generate cash even after the capex has required for TI and TI1 growth cash kind of drops to the balance sheet depends on what we do on TI2.

Sundar S: Sounds good Sir. Thank you Sir and all the best.

Moderator: Thank you. The next question is from the line of Vipulkumar A Shah from Sumangal Investment. Please go ahead.

Vipulkumar A Shah: Thanks for the opportunity again. Sir can you share the capacity on the electric three wheeler, electric commercial vehicle side and truck side and what will be our capex for each of these products cumulatively?

Vellayan Subbiah: So electric three wheeler we have capacity for about 70,000 per year and the heavy commercial vehicle we have capacity like we said between 3000 and 3600 a year and on the tractor side we have now built up capacity for 25,000 a year.

Vipulkumar A Shah: What will be the cumulative capex for each of this product sir?

Vellayan Subbiah: Take the three combined about Rs.1000 Crores.

Vipulkumar A Shah: Likewise on CDMO and surgicals side what should be our capex if it is possible?

Vellayan Subbiah: Surgicals and acquisitions already has capacity we are not going to spend more on that right now it is very minimal what we have spent and CDMO we have outlined 300 Crores right now.

Vipulkumar A Shah: Thank you and all the best.

Moderator: Thank you. The next question is from the line of Prateek Poddar from Nippon India Mutual Fund. Please go ahead.

Prateek Poddar: The way you built up capacity on the electric mobility field from a BOM cost perspective localizing cells is that something which is a big opportunity or can be a big opportunity for you or not thinking about it given that itself would be a big runway of growth?

Vellayan Subbiah: So Prateek what we have been very clear on is in terms of cells, we will buy, we will not kind of make our own cells. We do see that localizing is going to happen because there are several large players that are setting up capacity and we will buy from those large players once they have established this capacity and stable capacity in India so we definitely see that as an opportunity. We also think that that will help reduce prices one of the things I am always bullish about is when Reliance gets into a business prices drop so we do believe that prices for cells will come down over time.

Prateek Poddar: You are okay buying cells from domestic players?

Vellayan Subbiah: That is why I am saying. This entire supply chain will come to India but it just takes time and so that process we have to give it. So I do not know when the local suppliers will be there with cells that are as safe and as good as imported cells, but I have absolute belief that it will happen Prateek.

Prateek Poddar: Sure Sir. Thanks and best wishes for the future.

Moderator: Thank you. The next question is from the line of Siddhant Dand from Goodwill. Please go ahead.

Siddhant Dand: Could you just give us an idea on the two wheeler automotive chain business what is our market share there, OEM versus aftermarket and how much growth are we expecting here and what is the EV risk that we face over here?

Mukesh Ahuja: Like you are aware the two wheeler industry in the Q1 has not done good, but in OEM our shares are intact and we are working on aftermarket share as of now to continue the growth momentum, but however given that conditions of two wheeler is not doing well that is why we are seeing that. Answering to your question on EV we do not see next 7 to 10 years because the kind of vehicles are available on the road which itself will consume huge aftermarket offerings going forward so we do not see that, but however OEM side penetration on the two wheeler is expected to be around 30% and there also there are some inquiries coming how can develop the chain on the business which are too early stage to comment on that we are working on.

Vellayan Subbiah: I think one of the questions was what market share do we have in OEMs? We do not share kind of specific market share data. So just to think of it OEMs for two wheeler it is predominantly three suppliers are there, three suppliers kind of cover most of the market and on SPD also between the spare part divisions again I would say three players which is in the spare part divisions of the OEMs and then two aftermarket players have the largest share including some Chinese exports, but to the other question on EV, yes obviously OEMs demand will drop as they start shifting a bit more, but like Mukesh said anybody that is moving away from a hub motor, some of those players are also beginning to look a change.

Siddhant Dand: Okay so there is potential for chains also in OEMs or not just belts in non-hub motors?

Vellayan Subbiah: Actually there are chains getting supplied right now?

Siddhant Dand: Correct, I am aware in some bikes but how about scooters?

Vellayan Subbiah: Yes, that is what I am saying it is a smaller number and therefore that is why we have always said the EV is a threat to this chain business.

Siddhant Dand: Perfect. Thank you.

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

Anupam Gupta: Thank you for the opportunity. Just a small question on TI1 side you said you have very high utilization, so currently in terms of capacity expansion when do you think the fine blanking large dia in the general tube capacity will come in and what sort of expansion are we looking at?

Mukesh Ahuja: By the end of the year capacity expansion almost 70% will be over, some part will spill over to the Q1 of next year, but we expect entire capacity expansion.

Anupam Gupta: What sort of addition are we looking at in terms of percentages?

Mukesh Ahuja: You can say about 30% increment in capacity.

Anupam Gupta: That should basically be good for next couple of years ideally for in terms of growth?

Mukesh Ahuja: At least next two years would be good to go.

Anupam Gupta: Fine, that is helpful Sir. Thanks a lot and I think we do not have any further questions. I will hand over to you Mr. Vellayan for any closing comments.

Vellayan Subbiah: Nothing else Anupam but I think like I said the broader opportunity in India and just getting more bullish on as we begin to look at the number of changes. Also what we see constantly is the government is very supportive of bringing more and more manufacturing back to India whether it is electronics or other industries and so that is also kind of extremely encouraging and so what we have to really look at is this constant balance between growth and existing segments and the opportunity that are being up presenting themselves in the new segment which is what will continue to stay focused on and we continue to be very bullish on this as we go forward.

Anupam Gupta: Sure. Thanks a lot. Thanks a lot for the time Sir and this was helpful. Robin we can close the call now.

Moderator: Thank you very much Sir. On behalf of IIFL Securities Limited that concludes this conference. Thank you all for joining us. You may now disconnect your lines.