"Tube Investments of India Limited Q3FY22 Earnings Conference Call"

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MODERATORS:	**MR. ANUPAM GUPTA – IIFL SECURITIES LIMITED**

Moderator: Good morning ladies and gentlemen. Welcome to Tube Investments Q3FY22 Earnings 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 call, please signal the 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. Anupam Gupta from IIFL Securities Limited. Thank you. And over to you sir.

Anupam Gupta: Good morning everyone and welcome to the post-results Conference Call for Tube Investments. It's my pleasure to have the leadership team from Tube Investments joining us for the call including Mr. Vellayan Subbiah - Managing Director, Mr. Murugappan – Chairman, Mukesh Ahuja – Head of Tubes Business, Mr. Srinivasan – Head of Metal Business, Mr. KK Paul – Head of Cycle Business and Mr. Mahendra Kumar – CFO of the company.

I will now hand over to Mr. Vellayan for opening remarks, post which we can have the Q&A. Over to Mr. Vellayan.

Vellayan Subbiah: Good morning, everybody. We just discussing results of Q3., PBT for the quarter was at a Rs.161 crores. Revenue in Q3 was Rs. 1701 crores compared to Rs. 1309 for the same period the previous year. The PBT was at a Rs. 161 as against Rs. 145 the previous year. The return on invested capital annualized was at 49.6% compared to 51.7%. And the free cash flow for the quarter was Rs. 172 crores with improved NWC levels from Q2FY22. The PAT for the quarter is Rs. 120 as against Rs. 107 for the same quarter last year.

Just a quick summary on each of the businesses, Engineering revenue was at Rs. 996 crores compared with Rs. 733. One of the reasons for the revenue jump is the inflation impact of raw materials. The PBIT for the business was at Rs. 87 crores as against Rs. 102 in the corresponding quarter of the previous year, primarily due to higher fixed costs incurred towards special maintenance expenditure and plant layout changes.

In Metal Form Products, the revenue for the quarter was at Rs. 330 compared to Rs. 315 in the corresponding quarter of the previous year. PBIT was lower at Rs. 32 as against Rs. 38 in the corresponding quarter of the previous year due to lower volumes in railways and doorframe

Mobility registered revenue of Rs. 280 compared to Rs. 234 in the corresponding quarter of the previous year. PBIT was flat at Rs. 15 crores due to higher 3wheelers pre-operative cost which are also part of the mobility right now.

And in Others, the revenue was Rs. 159 compared with Rs. 79. Industrial chains has done very well for us. PBIT for the quarter was Rs. 11 against Rs. 8 in the corresponding quarter of the previous year.

At the consolidated level obviously now we are consolidating CG Power and Shanthi Gears, the revenue was Rs. 3410 as against Rs. 1700 crores the previous year, because it didn't have CG in the last year. The PBT were Rs. 353 crores as against Rs. 158 in the corresponding quarter of the previous year.

CG Power in which the company holds a 52.61% stake registered a consolidated revenue of Rs. 1551 crores as against the Rs. 820 crores in the corresponding quarter of the previous year and PBT before exceptional for a quarter Rs. 174 as against Rs. 64 in corresponding quarter of the previous year.

Shanthi Gears in which we have 70.47% stake had revenue of Rs. 95 as against Rs. 65 in the corresponding quarter of the previous year. And PBT for the quarter was at Rs. 17 as against Rs. 10 in the corresponding quarter of last year.

Commenting on the financial results Mr. Arun Murugappan, Chairman TII, stated that the results for the quarter show a steady performance for all businesses. The company is closely watching the impact of challenges of the drop in auto industry performance which has impacted domestic Tubes and our Metal Formed Business. Performance in exports has witnessed healthy growth in Tubes and Industrial chains business. And CG Power has also delivered consistently higher results across all of its business segments.

So, let me stop with that and I will turn it over to you for questions.

Moderator: Thank you. Ladies and gentlemen, we will begin with question and answer session. The first question in the line of Nishit Jalan, from Axis Capital. Please go ahead.

Nishit Jalan: My first question is on exports this is one segment which we have scaled up very well on the Engineering side, especially just wanted to get your sense as to where are we in terms of overall share of exports in our total revenues. And what would be the target in the medium term? I think in the past you have shared about target to scale up exports in the Cycle segment as well. Would we have some opportunity in the Metals Formed Business? Can export be a significant part of revenues in the next three to five years compared to where we are today?

Mukesh Ahuja: This year has been very good year for export, which was a part of our strategy to keep on enhancing exports as a total pie of the Engineering division. And we are getting closer to the target what we have set in for ourselves. But there is still good headroom available for the new product category for which we just finished even a CAPEX cycle in Q3. And we are bullish about exports going forward. **A**nd to just give you numbers, maybe our revenue from the exports is around 20% in the Engineering division for the tubes.

Vellayan Subbiah: I think the encouraging news for us that in the Engineering business, like Mukesh said we hit 20%, we will have to see what numbers we sustain at. We would like to get to 25% to 30% at least starting in the Engineering business. Cycle is another area where we have an opportunity for exports. And that's something that Paul and his team are just starting off on. So, it will take a little while to pick up.

In general the other area in which we have had good exports growth is on the Industrial Chains side. And Industrial Chains is getting a significant portion of their revenue now almost close to 40% from exports.

So, these are the three segments in which we see immediate opportunity and like I said Metal Formed will continue to take a while. But in the segments in which we see opportunity we definitely like for at least 30% of the business to come from exports. We would love to see when we can get there hopefully in the next couple of years.

Nishit Jalan: Just to get slightly more details in terms of this exports have scaled up very quickly in the last couple of years. Do you think that it's mainly because of the China-Plus-One strategy, which are the these regions i.e. in Asia or other countries which you are targeting or which areas seems stronger traction in exports across both Industrial Chain and Engineering division?

Vellayan Subbiah: So, definitely it has been because we have been very focused on it from a strategy perspective.

Mukesh Ahuja: Like Vellayan explained we as a part of our strategy, very focused on the exports. And the major focus has been how we can continuously increase the OEM business, as well as whenever the opportunity comes, we keep focused on the distributor side of the market. So, this year maybe there is a good increase in the US based volumes for TII and even the large diameter segment also, we had a very good exports for the Europe market, which has given a very good run for this year. And we hope to keep this momentum sustained going forward, and we improve towards like Vellayan was trying to say, around 25% going forward for Engineering division to increase the export revenue.

Nishit Jalan: My second question is more on your strategy on electric vehicles. I know that you are developing electric three wheelers already, probably, we will see that product in Q1. Recently, you acquired a 70% stake in Cellestial E-Mobility, which is primarily into electric tractor segments. So, what our understanding is that probably we will see electrification happening more in two-wheelers, three-wheelers, and probably in lower end LCDs, right. But tractors, electrification could be at a much later stage.

So, just want to understand, what is the strategy that we are looking at? And are we looking at Cellestial more as our technology kind of thing, or we are actually looking to get into electric tractor segment in a bigger way?

Vellayan Subbiah: So, the short answer is we are actually looking at getting into the electric tractor segment. We definitely see that tractor segment is a big opportunity. So, just to give you a broad approach to our electric vehicle strategy itself the one thing that we see is that we see a much better approach to electric vehicles at the productive end of the spectrum versus the consumptive end, right. So, the areas we are staying away from are like two-wheelers and passenger cars, which are more consumptive. And we are focused on the more productive end of the spectrum where the vehicle is actually an asset that earns income for the owner.

So, if you take three-wheeler, passenger cars though that's definitely the case. And all the segments that we are looking at electric are going to have that characteristic, which is the focus of the productive end of the spectrum. Now let's talk about tractors for a bit right, we actually think that basically both three-wheeler and tractor the reason we chose them as the Ist and IInd category to get into is because we think that these two categories are very ripe for disruption.

The three-wheeler if you take as a kind of the battery capacitization, so as you know the battery basically drives between 40% and in some cases 50% of the cost of the vehicle the battery and BMS and in some cases, the controller as well. So, in fact what happens with battery capacitization if you take a two-wheeler, for example, the average two-wheeler travels like 40 kilometres a day. So, it's about 1000 kilometres a month is what an average two-wheeler travels 40 kilometres a day. But if you don't capacitize the battery to over a 100 kilometre range people have range anxiety and don't buy it. And so there's a slight mismatch because you end up with a higher cost point when you need to deliver on a vehicle to get over range anxiety.

With three-wheeler we see this as almost perfectly matched because a three-wheeler an average does about 100 kilometres a day. So, you capacitize it to about 130 or so in range and kind of the economics are working a lot better.

The second is that we really believe that in three-wheeler, the user right kind of either the auto rickshaw owner or the auto rickshaw driver in some cases, they can be the same will definitely see the financial benefits on a much more tangible month-to-month basis in terms of how it looks at their cash flow.

And we are seeing the tractors have a very similar characteristics especially because power in some cases is kind of quite subsidized in the agri area. And therefore if you take the running costs per day of a diesel tractor, especially during cultivation seasons, it's extremely high because of the diesel consumption of the tractor. And therefore we see the economics of moving to battery as beginning to play out. And we actually think that the crossover point on both three-wheeler and tractor is going to come much before the crossover point in other vehicles, that's between EV and IC.

So, we are actually very excited about the tractor space. Our sense is that we will come out to the market with a lower horsepower tractor, which also has it's niche. In India, almost, I would say 80% of the market is between the 40 and 50 horsepower, I mean so if you take north of 35 horsepower. But we would likely to come out with a lower horsepower tractor by the July timeframe, if not earlier, and bring that tractor to market. So, our intent is definitely to get into the eTractor segments.

Nishit Jalan: Just one follow up, would you like to highlight on your distribution strategy on electric three-wheeler because we need to set up distribution reach for that. And a connected question is would you like to get into electric segment in your cycle segment or you would want to stay away from that picture?

Vellayan Subbiah: Yes, so we will definitely get into electrical on the cycle as well. As far as the distribution strategy for electric three-wheeler I will let Kalyan Paul answer that who is on the call too.

KK Paul: I think for the distribution strategy on three-wheelers we will start with the Southern state, look to consolidate there and then gradually move towards West and North is a strategy that we have. So, in line with that we have had the distribution network. initial people who would be interested, we have worked out a formula, we have discussed with them and we are quite bullish about moving forward with that plan.

Nishit Jalan: My last question, slightly more accounting related, you had talked about few non-recurring expenses in engineering segment because of plant layout and also three-wheeler operating expenses on the mobility segment. Would it be possible to quantify these non-recurring expenses, so that we can get a sense of underlying profitability?

And a related one is your unallocable income has gone up significantly almost Rs. 24 crores it used to be Rs. 10 crores. So, I think is there something which has impacted your segmental margins. So, any change in accounting over here?

K. Mahendra Kumar: So, as far as this one time expenditure in TI or Engineering business is concerned, I think it was close to about Rs. 12 crores between maintenance and layout related expenses. And then similarly the EV related expense also I think we have spent close to around Rs. 8 to Rs. 10 crores for the last five to six months.

Nishit Jalan: Within the segmental results if you see we have seen a much sharper margin cut I think your unallocable income has gone up to Rs. 20 crores this used to be Rs. 10 crores it is almost a Rs. 50 crores swing which is unallocated to segments. So, just wanted to understand why is that?

K. Mahendra Kumar: So, the unallocated income basically comprises of various things, it includes things like for instance the exchange impact, the exchange fluctuation gain and we also gained something in the exports incentive which we did not recognize as part of the period, which we recognized now. And then we also have things like there was certain property related receipts with it being sold at the latter part of the years. So, that's a sale of intangible assets. So, those were the gains which happened in the last 6 months.

Moderator: Thank you. We will move on to the next question, that is from the line of Abhishek Ghosh from DSP Mutual Fund. Please go ahead.

Abhishek Ghosh: Just a couple of things in terms of, if we look at while revenue growth has been very strong, but that's also because the steel prices, so I think volumetrically understanding the company may be a little better in terms of utilizations for the plant, if you can just help us understand, because we are seeing constant decline in two-wheeler volumes and your tube goes major part there. Or is there a market share gain that you have been able to kind of offset the decline in volumes at the industry level. Some thoughts that will be useful.

Vellayan Subbiah: So, now, I would say in engineering, we do have moved away, it's not as full out as we were in kind of the first and second quarters so there is slightly more capacity there. Definitely, we have seen slight softness, because of the auto slowdown. And so from a utilization perspective, I would say that we have bandwidth in kind of all of our businesses right now, for growth.

Abhishek Ghosh: There is an element of operating leverage, which will still play in when you get higher volumes is what I was trying to understand.

Vellayan Subbiah: Definitely.

Abhishek Ghosh: If we look at last three quarters you have generated almost about, I think, combined close to about Rs. 450 crores of free cash now, as per your press release. So, if we can just broadly understand the capital allocation strategy going forward, because at a consolidated level, your debt levels have come down significantly, you barely have any debt on balance sheet. So, how should we look at it now, in terms of capital allocation, there's a strong free cash generation that is happening, so part of it is going to EV we do understand, but beyond that, how should one look at it? And also cash flows from CG power will CG Power do its own investments or it will come into tube and will you look at on a consolidated basis? Some thoughts that it will be very helpful for our understanding thanks.

Vellayan Subbiah: Sure, I think, definitely, on that front the situation is quite encouraging, because, like you said, both businesses are generating cash. CG also went net debt free, because we were able to sell that Kanjurmarg property. So, in my sense, we will have both Kanjur, I mean both CG and TI generating at least north of kind of Rs. 400 crores in free cash flow.

And so CG will do good next year, we will likely kind of dividend some of that back to TI. But CG will continue on expansion initiatives that it's identifying internally. And we have looked at several areas within CG, where we will drive expansion and one of those obviously, is going to be on EV motors area where we still have to find a partner kind of look at a way of getting into that business. But there are opportunities for investment within CG itself.

Then if you take the money that CG dividends back after TI and they take a free cash flow in TI that's where I will say we have been fairly busy through kind of the whole lockdown period identifying opportunities for growth, especially after we finished the CGI acquisition, we started looking at several areas, electric vehicles kind of being one of them, we are pursuing and beginning to look at kind of other businesses as well, which as soon as we take through and get approval internally, we will start discussing with you. But we actually see this as kind of the beginning of investment in like we have articulated TI 2 and TI 3 there is some investment that is going to TI one. But I think significant investments are going to go into TI II and TI III in the next fiscal year.

So, all of the segments into which, we have obviously announced electric vehicles, but there are two more additional segments into which we will be investing in our currently doing our complete diligence on them and identifying opportunities there. So, there will be both organic and inorganic investments into these new areas of growth. Like we have always articulated, right, we want to kind of move away from being an auto supplier. So, a lot of this is either focused on EV for example that makes us an OEM in the categories that we go into. Or it can be into new areas, which we are exploring.

So, my sense is we are going to deploy significant capital towards those areas. And I honestly think that India right now is really primed for looking or investing in growth segments like that, because there is so much opportunity opening up on the industrial and the manufacturing side.

So, without stating the specific segments, which we will kind of discuss with you over the next two quarters, I will say that we have been kind of very busy identifying investment and growth opportunities across the whole spectrum. In both TI II especially in TI II I would say.

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

Sameer Dosani: Yes, so my question is towards Shanthi Gears. So, what is your overall outlook for Shanthi Gears in that the CAPEX cycle is going to pick up, that's one. Second, what is the capacity utilization currently given that we have delivered almost about Rs. 95 crores of revenue over there? And what is the time period in which we think that the order book of Rs. 275 crores will be executed in Shanthi Gears?

Vellayan Subbiah: So, I think the question was on Shanthi, and so Yes, obviously, last quarter was very good revenue numbers. That was also, it had some overflow from the previous quarter. But in general, we feel like if we can hit close to those revenue numbers that will be a great target for the company really. And at that level, kind of utilization, though utilization is a bit tough to kind of define in a place like Shanthi Gears because of the number of bespoke machines, I would say that utilization is pretty high at these revenue levels. And I think the third question is how long does it take to run through the order book? Typically about six to nine months, but obviously kind of the order book will also get more input, coming into the next few months as well.

Moderator: Thank you. The next question is from the line of Romil from Electrum. Please go ahead.

Romil Jain: So, my first question is on Shanthi Gears, so just want to understand, I think a lot of CAPEX is happening, on the railway side. So, if you can just briefly let us know, what kind of pipeline is there by government, on the railways? Which areas we are working on? Maybe any products from the Shanthi Gears side? And some absolute number on the order book, so that we can understand where the growth can lead to?

Vellayan Subbiah: Yes, I think we just answered the question on order book, its Rs. 270 crores is what the order book is at. And obviously, on railways, we are quite strong in the railways business. And we will continue to invest there. We see it as a significant opportunity for growth. And so we will continue to kind of invest in that business. And I would say a lot of the revenue that comes off, if they come up with so much on the Vande Bharat trains we will basically get that volume up.

Romil Jain: And sir the other question is broadly a connected question, with regards to our continuous cost efficiency projects that we do. So, earlier, we did a lot of low hanging areas and now just want to understand, what are the other areas that we are working on? And also the impact on the margins, going ahead with the raw material inflation that we have seen so how do we counter that going ahead, along with the cost efficiency projects? And what would be a broad margin band that we can look at?

Vellayan Subbiah: So, I believe that, so obviously kind of raw material pricing nobody can say where it's going to go. But I would say that there is at least one percentage point more that we had from the cost efficiency side and LEAN initiatives that we are working on. So, at least one if not two percentage points that we can get from that, in the next few years.

Moderator: Thank you. The next question is from the line of Sanjay Shah from KSA Securities. Please go ahead.

Sanjay Shah: My most of the questions are being answered, more was on Shanthi Gear side, can you elaborate something on that side? Are we planning to add any new products to our portfolio? Do you have any growth strategy on that side?

Vellayan Subbiah: Actually we have always articulated that we don't want too many Shanthi questions, coming in, now there are more Shanthi questions coming in than TI questions. So, I think broadly, we articulate because we keep our investor communication that we manage through Shanthi. I mean, obviously, we are constantly looking at new products in that area. But I don't think that there is anything new I mean, it's again, across all segments, we continue to see opportunity there.

Moderator: Thank you. The next question is from the line of Abhishek Ghosh from DSP Mutual Fund. Please go ahead.

Abhishek Ghosh: Few things just wanted to understand in terms of your ability to pass on the price increases with the OEMs. How difficult has been that as a proposition? And how should one look at it? So, obviously your gross margins have deteriorated and obviously, you can't go back to the normalized gross margins, because the steel prices have moved up, we do understand. But how should one look at that element of it, some color there will be helpful?.

Vellayan Subbiah: We continue to believe and we continue to have the capability to pass on price increases. We are getting into situations now, especially when we went through kind of the last couple of quarters when steel really went through the roof that there were situations where the OEMs was pushing back significantly. But I do believe that those situations are only at the extreme margins, right, which is basically it's only when prices go up as sharply as quickly as they did last year.

In most situations, the OEMs have been quite accommodative and kind of cognizant of the fact that, we cannot take those hit on our own balance sheet. So, I would say, in general, we are still very confident that we are able to pass on the price increases. But we do end up with some kind of hiccups at the extreme.

Abhishek Ghosh: So, fair to assume at the margins, assuming commodity prices remain stable from here, the gross margin should improve, we can question the magnitude but at the margin, it should improve.

Vellayan Subbiah: Correct, absolutely, I think that's fair.

Abhishek Ghosh: And just one thought, railways has been very soft for you all through the entire crisis. And the expectation is that it might come back stronger, but just one thought, the income from the passenger railway also has been very weak. So, any thoughts from you all in terms of, can that CAPEX be a little pushed back, given the funding situation, because railways may not be in the best position given that passenger income has been fairly weak, some thoughts there, or if you are positioning yourself, because CG also derives lot of revenues from there. So, some thoughts that will be helpful.

Vellayan Subbiah: Yes, you are right in terms of the passenger revenues being weak. I think the big thrust now, and all the indications that we have got from the railways folks, is that they are very serious about these Vande Bharat trains, right. Initially, when the Finance Minister announced this, even I was a bit skeptical that how can they possibly get out 400 trains within three years right, I mean, that's like an unbelievably high number for the railways. But the way they are acting, actually now looks like they are going to give it a very serious push towards that number. And if we get anything close to that number, I think that that's going to help. It will definitely help the CG side much more than TI. But TI also will benefit from the coaches. But CG's benefit will be huge and we do believe that they are going to push towards this number. So, we are quite bullish about it.

Abhishek Ghosh: And just one last thing, in terms of the exports part of it, had the container availability stated as being normal could have been better than exports or just some thoughts there?

Mukesh Ahuja: Yes, like you indicated let's say this container availability is getting normalized. But there was a lot of pipeline inventory and material waiting at ports which is slowly getting cleared. So, we hope it to get normalized by Quarter 4 and Quarter 1 of next financial year should be coming back to the normal situation, which will again push the exports demand, is the view we get.

Vellayan Subbiah: No, Mukesh, I think the question was, had there been better container availability would our exports have been higher?

Mukesh Ahuja: Surely, yes sir.

Abhishek Ghosh: And the whole steel price arbitrage also which was kind of helping in exports, is it still continuing or even without that or because there were a lot of dynamics which were playing higher freight rates, steel arbitrage, are those things normalizing? And will you be still competitive in a normalized scenario, as far as your exports are concerned, Mukeshji, if you can just throw some light?

Mukesh Ahuja: Yes, we will be competitive even going forward. But like you rightly pointed out this container freight, and the steel arbitrage was there, which we hope in next three to six months time it should, the margin should now we let's say, the gap should shrink. But even after shrinking it, we are going to be competitive in the exports.

Abhishek Ghosh: And any new geography that you are now seeing because the US came back very strongly for you, is there any new geography that is giving you a lot of optimism in terms of the sustenance of this export growth?

Mukesh Ahuja: Well like we earlier said that we are very focused on the OEM side of the story, which takes almost two to three years kind of a cycle, for the product development, where a lot of programs are in the pipeline, which we are on the verge of the closer. And in this year itself, almost close to two to three new programs, which we were not earlier there in the business, got approved, and the journey will continue. We are very focused on the product categories where we want to be globally present. And the strategy will continue for that.

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

Anupam Gupta: Firstly, in the Tubes business we understand that large wire tube has been growing very well, but I think the capacity utilization there also has reached quite an elevated level. So, incrementally when you are targeting more large wire tube sales both in India as well as in exports, how do you cater that? Are you looking at incremental investments there or what's the plan?

Vellayan Subbiah: Yes, we are definitely going to expand capacity, where we choose to expand capacity, we will decide but we will definitely expand capacity in the next financial year.

Anupam Gupta: And in terms of second question, in the Mobility segment, the three-wheeler launch which is due next quarter, can you just slightly elaborate on two aspects, one is on a where you are in the production stage at this point of time, has the testing happened or what sort of responses you have seen there.

And secondly, on the distribution part of it, while you said that you will start off in the South and then go North and West. But given that you don't have so much of B2C sort of expertise directly in the company, what sort of organizational sort of investment have you done there?

Vellayan Subbiah: Just to give you -- on timing. I think the timing for launch will actually kind of move to this July/August timeframe so there we are slightly delayed. The timing for launch will move to July/August.

KK Paul: I think from a perspective of B2C, actually, we have some experience in cycles, because cycles is also basically B2C as well. So, we have taken that level of expertise and seeing what needs to get done, at the distribution side for the three-wheelers. And so we worked out various models etc., what kind of consumer experience do we want to give? What is the benchmarking we need to do there? How will we get there? And then we have tested out some models you know. Products have undergone extensive testing, over a period of the last one year. Even now, there are all kinds of prototypes on the final version that is undergoing reliability test at different stages. That's where we are at, in terms of this.

We are also looking at, how do we build in a better class of consumer experience. And that's what we have concentrated on. And got some models there in terms of taking our initiatives forward, just as we are speaking, we have a whole lot of distributors, dealers, interested. We will look at also what is going to be their return-on-investment, and how will we sustain that even in the first year, which might be a challenge, in terms of this. How do we keep the investments at a level where they can make a return, at the end of the year, in terms of this.

It's the kind of initiatives that we have set, we have built up a separate EV team, also, that will specifically focus on the areas of technical, on marketing, on sale, aftersales so the branding, what do we do with the social interface what it can be applicable in three-wheeler segments? And how do we move forward? Those are kind of work that we have done.

Of course, because of COVID, some amount of setback has happened. But we followed modeling level below and minimum viable products to test all the concepts that we have been talking about internally to see that when we hit the road with the launch, we should stitched up all these areas so that we can give finally the consumer a very good experience.

Anupam Gupta: And just one last question, Vellayan to you, you highlighted that capital allocation, obviously, looking at investments in TI-II and TI-III, so TI-II per se, seems to be obviously smaller investments, which grows overtime, depending on the viability, but in terms of TI-III, what sort of size will you be looking at, in terms of investments within the next one year, one couple of years?

Vellayan Subbiah: So, let me just articulate it because basically when you see even Cellestial, Cellestial is slightly larger than an investment that we might have made in a classic TI-II play, right. So, we also been kind of debating that right, which is like, so TI-III, I kind get it reserved for the slightly stressed kind of larger deals that we look at. So, I should actually say that we are going to see more activity in TI-II right now. But there are going to be some slightly bigger deals there is a sense like with Rs. 200 crore largely deals could be going even larger.

So, the general approach we have taken, which we have kind of consistently articulated for the last three years is that the maximum we will go to in terms of debt levels is like twice annual free cash flows. And so that's still kind of our approach to it. But basically, what we see is that now the time seems to be very right for a lot of investment opportunity, because there are a lot of whitespaces that because of all of these different things that are getting announced by the government, PLIs in different areas. Actually, is not just PLIs and you take kind of just the fact that exports are picking up in a lot of segments, because of China-Plus-One. The domestic market is becoming fairly large. And there are no defined players or some cases import substitution.

So, we have been kind of doing a broad scan across industry segments. And I have shortlisted a few in which we see that good whitespaces that can become significant areas of, significant platforms for TI overtime. And so we are going to start feeding those whitespaces in the next financial year. And I think you are going to see some of that activity over the next couple of quarters.

That's what I was talking about. And so specifically, I think it's going to be more in TI-II, but it will be slightly larger deals than we have traditionally done in TI-II. So, it's not like the Rs. 20 crores to Rs. 30 crores things anymore.

Moderator: Thank you. We will move on to the next question that is from the line of Niket Shah from Motilal Oswal Mutual Fund. Please go ahead.

Niket Shah: I have three to four questions one is you did highlight about PLI and auto, just wanted some sense that how is Tube looking at that opportunity and what kind of products or role would you play in PLI?

Vellayan Subbiah: Yes, so PLI and auto, we have looked at it, I mean, the only category that kind of actually, EV is the only category that kind of actually seems to make sense for us. And so that's what we are exploring right now as far as PLI and auto is concerned.

Niket Shah: And the second question was on the EV three-wheeler launch timeline, are we now on track to just launch in the 1st Quarter? And the similar question to that was, you know historically we have seen in the IC side of the market where some of the two-wheeler OEMs have gone into international markets, and it becomes very difficult for the competitor to come back and grab market share in those markets, as far as export is concerned. So, will export also be a part of the EV three-wheeler, you will do it parallelly or you might launch it after a few years?

Vellayan Subbiah: So, first off, on the EV, we are delayed, I think we are now pushing kind of at the end of July, maybe early August, as a launch for EV three-wheeler. We have been delayed. But second to your question, I don't think we wait two, three years. But initially we will focus on the domestic market and then we will determine how quickly we can go to export market.

Niket Shah: And the third question was, while you have put all the EV business into one company, will you be looking at partnership at that company level through a JV route or diluting for some strategic partner, is that an opportunity or this is just get to, get more focus after?

Vellayan Subbiah: Yes, that is an opportunity. We definitely think at the right stage if there are partners with interest, we will do that.

Niket Shah: And just final question, as most of the questions have been answered, your margin guidance of about 13% to 14% range over the next few years, will that stay given the current raw material situation that we have, given the cost cutting programs that we have already initiated?

Vellayan Subbiah: Yes obviously it depends on raw material prices if they stay at these kind of elevated level. I mean, the thing is, if they stay at very elevated levels, and even a smaller percentage will get us the same benefit. So, I would say that the benefit to be had is still there. The percentage will depend on kind of what is happening with raw material prices.

Niket Shah: And is any product mix changed within the last COVID highlight that you essentially want the higher margin products to really increase the percentage of revenues that when we do take on the margin going higher? So, should we assume that given the current raw material environment, the product mix has to do far bigger job compared to raw material costs coming down and near to denominator or anything out there?

Vellayan Subbiah: I mean, the biggest opportunity in our legacy business side continues to be exports, right, because exports is something that can help our margins definitely. So, I would say more than the mix side, its exports being a big driver

Niket Shah: And one bookkeeping question is how large is the auto business now within the Engineering and the Metal Foam Business?

K. Mahendra Kumar: Total level it is about 55% or so.

Niket Shah: And, across category right, Engineering and Metal Foam both?

K. Mahendra Kumar: Yes.

Moderator: Thank you. The next question is from the line of Rahul Ranade from Goldman Sachs Asset Management. Please go ahead.

Rahul Ranade: Just any update on the optical lens business where it stands right now. I think the last comment that I remember is that because of the chip shortage, there was still some issue with demand coming on stream. So, just wanted to get a sense on that?

Vellayan Subbiah: So, at this stage, we are waiting on, so we are in trial orders with a potentially large customer. And we were waiting on product verification. If we get product verification hopefully we will start scaling that in the next quarter.

Rahul Ranade: And can you remind me what is the kind of investment that has gone into this capacity right now and what's the capacity?

Vellayan Subbiah: Fairly small, it's worth Rs. 34 crores at this stage. So, it's kind of almost at a pilot levels. So, we will only scale it up, once we get comfort with that. We have only put in about Rs. 34 crores.

Rahul Ranade: And do we have any kind of an anchor customer who kind of ties up for a meaningful part of the capacity and then the rest depends on the demand supply conditions? Is that the way it goes?

Vellayan Subbiah: That's what we are in certification for, right. So, basically, if we get the product certified with this customer, they will become an anchor customer for us.

Rahul Ranade: And just in terms of numbers, what would the capacity be in terms of number of lenses?

Vellayan Subbiah: Our current capacity is fairly small we are at a half a million lenses per month. So, we will only ramp up once we get, first we need to get a product stabilized only then we can ramp up.

Moderator: Thank you. The next question is from the line of Megha from Pi Square Investments. Please go ahead.

Megha: I have just had one question on the CAPEX side, what's the total layout plan for this financial year?

Vellayan Subbiah: For the coming financial year, we take it to our Board in the March Board Meeting for approval. So, we are finalizing those numbers. And we will take it to the Board in March. So, we will be able to give you a better guidance after that call. We will be able to give you better guidance in April.

Moderator: Thank you. We will move on to the next question that is from the line of Rohit Ohri from Progressive Shares. Please go ahead.

Rohit Ohri: So, in your comments you mentioned that the utilization of Shanthi is quite high. And there was even a spillover from the previous quarter. So, with the gross margins not moving around, and it's almost in the same range of 49% to 51% or so. Is the service part of the business, the aftermarket sales from Shanthi is that the factor that is contributing to the top-line?

Vellayan Subbiah: So, it's not aftermarket sales, I do think that, I think the utilization has now gotten higher than it was before. So, that the increased utilization is what's helping the bottom line.

Rohit Ohri: And if you can just split what would be the share from the service segment for Shanthi Gear from 95 products?

Mukesh Ahuja: It's a very small percentage today –

K. Mahendra Kumar: Total company level is around between 15% to 20%.

Rohit Ohri: So, we are maintaining the guidance over that. Okay if the utilization is higher and we have this ambitious target of kind of tripling the turnover in next three to four years and trying to double the profits. So, will we see more of growth CAPEX coming in for Shanthi Gears?

Vellayan Subbiah: Sorry, you said tripling the turnover in Shanthi?

Rohit Ohri: Yes, that was what was mentioned in the AGM.

Vellayan Subbiah: In the TI area or the Shanthi area?

Rohit Ohri: Shanthi area.

Vellayan Subbiah: I don't, it was last AGM I would have been, I don't know, did we do this virtually? I don't remember giving any guidance on Shanthi for tripling the turnover. So, I am not sure who gave you that guidance.

Moderator: Thank you. The next question was from the line of Sameer from Autus Securities. Please go ahead.

Sameer: Two questions, first is where do you see, on a consol basis Tube Investment over next three years on the review side or a ballpark kind of growth and target? And the second question is on the return capital employed side, over the next few years where do you see the consolidated ROCE moving for Tube over next three year?

Vellayan Subbiah: ROIC, I don't know, we have got a determination, I think what we have kind of guided has been like 17% compounding on revenues. And I believe that we should continue to kind of achieve that on a consol basis. So, you can calculate that as it's compounded 17% for three years, it will take the final numbers.

Sameer: And what will be the key drivers of growth on sector wise or industry wise what will be the key drivers of this growth?

Vellayan Subbiah: So, I think that obviously, kind of, now, you can see that, first off on a consol basis, you can see CG is continuing to kind of compound at a good number. So, that compounding will continue, I believe, because there is a strong growth levers in CG. But within TI itself, we think that we have always articulated this, that we think that the core businesses will grow at about 69%. And that remaining gap of again, another whatever, right, I mean about 10% or 11% or so, will come from these TI-II opportunities and any TI-III that we do. So, it will come from the largest, obviously bets that we are making is electric vehicles. But like we said, we are going to announce a couple more segments in the next couple of quarters as well.

Moderator: Thank you. Ladies and gentleman that was the last question I now have the conference over the management to give closing comments.

Vellayan Subbiah: Yes, I think thanks, nothing specific from our side, Anupam, but obviously, like we said, as far as auto is concerned, we will see how things play out. I don't think anybody has any good idea. But we continue to be very bullish about new growth areas. And so those are some of the whitespaces that were beginning to invest in. We have made a couple of announcements in EV and we definitely think some of these segments offer a lot of growth going into the future. So, we continue to be very enthused about medium to long term growth opportunities.

Moderator: Thank you. Ladies and gentlemen, on behalf of IIFL Securities Limited, that concludes this conference call. We thank you for joining us and you may now disconnect your lines. Thank you.