"Tube Investments of India Limited Q1 FY 2021 Earnings Conference Call"

July 24, 2020

MANAGEMENT: **MR. VELLAYAN SUBBIAH -- MANAGING DIRECTOR, TUBE INVESTMENTS OF INDIA LIMITED**
MR. MAHENDRA KUMAR -- CHIEF FINANCIAL OFFICER, TUBE INVESTMENTS OF INDIA LIMITED
MR. MUKESH AHUJA – EXECUTIVE VICE PRESIDENT & HEAD, TUBE PRODUCTS OF INDIA
MR. KALYAN KUMAR PAUL – PRESIDENT, TI CYCLES OF INDIA
MR. K. R. SRINIVASAN – PRESIDENT, TI METAL FORMED PRODUCTS DIVISION

MODERATOR: **MR. KASHYAP PUJARA -- AXIS CAPITAL LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the Tube Investments Q1 FY 2021 Earnings Conference Call hosted by Axis Capital. 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, 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. Kashyap Pujara from Axis Capital. Thank you and over to you, sir.

Kashyap Pujara: Thanks, Inba. Good morning, everyone. And thank you so much for standing-by. I hope all of you all are doing safe and families are indoors. It is a great pleasure to have with us the top management of Tube Investments of India to discuss the Q1 FY 2021 Earnings.

From the management side, we are represented by Mr. S. Vellayan -- who is the Managing Director; Mr. Mahendra Kumar -- who is the CFO; and we also have the key business heads with us today, on this call, Mr. Mukesh Ahuja; Mr. K. K. Paul; and Mr. Srinivasan. So the entire top management team of Tube Investments is present on the call today.

Mr. Vellayan, I would now like to hand over the floor to you, sir.

Vellayan Subbiah: Thank you, Kashyap, and good morning, everybody. I will just go through a quick Press Release and then will be happy to turn it over to you for questions. Due to COVID-19 we have had a pretty crazy quarter in this last quarter. Pretty much from March 23rd onwards, operations have been shut down in a lot of locations.

We resumed some operations in a very small level at the end of April. And May also capacity utilization was extremely low across the system. In June, we have been able to get to about 50% capacity utilization. We obviously will have to see what, and we can talk a bit about what we think of going forward. But obviously, this has had a significant impact on both operational and financial parameters.

Revenue at a standalone level was Rs. 379 crores for the quarter, compared to Rs. 1,252 in the same quarter last year. And we reported a loss before exceptional items of Rs. 69 crores compared to a profit of Rs. 107 crores in Q1 last year.

During the quarter, basically, we also put in a VRS, this was not put in during or after-COVID we had already planned for it in February, so it is just getting implemented now. And that cost us Rs. 8 crores and that considers in exceptional items for the net loss before tax of Rs. 77 crores.

No use of saying loss before tax, I think it is also the first quarter in my professional experience anything that comes like this, come as a loss, so it is quite a traumatic situation for us.

The net debt in the Company was actually reduced to Rs. 101 crores as compared to Rs. 149 crores as of March 31st, 2020 and some of the individual businesses have done a great job of working capital.

Engineering business had a revenue of Rs. 164 crores compared to Rs. 657 crores. So, about 20% to 23% of their corresponding quarter; and their loss was Rs. 27 crores as against profit of Rs. 67 crores in the same quarter last year.

Cycles was at Rs. 100 crores compared to Rs. 290 crores and they had a loss of Rs. 6 crores versus a profit of Rs. 12 crores.

Metal Formed had a revenue of Rs. 127 crores compared to Rs. 350 crores and they had a loss of Rs. 38 crores versus a profit of Rs. 34 crores.

At a consolidated level revenue was Rs. 457 crores as against Rs. 1,385 crores and loss of Rs. 77 crores as against Rs. 120 crores.

Shanthi Gears also had a revenue of Rs. 25 crores as against Rs. 71 crores; and a loss of Rs. 5 crores as against a profit of Rs. 13 crores.

So, that was the net results, obviously, kind of not a great quarter for us given the environment. The only positive things I will say is that, actually, we usually not share the data, but June was a breakeven, slightly positive month for us. So, I think that is the only silver lining here. Obviously, my belief is that it will get better than it has been. So that is the silver lining and that is the good news.

So let me stop with that and I will be happy to turn it over to all of you and take questions and we will respond accordingly. Thank you.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. Our first question is from the line of Ashutosh Tiwari from Equirus. Please go ahead.

Ashutosh Tiwari: So my question is that if we look at commentary of different OEMs in recent, like last one month there is some pick-up happening in two-wheeler, four-wheeler side both, more so in two-wheelers. So, how you are seeing that trend basically in July? And also, I want to understand more on industrial side, how have you seen the trend in June and July?

Vellayan Subbiah: So, I think, Mukesh, do you want to take the two-wheeler question and then, I will come back.

Mukesh Ahuja: Yes, boss I will take it. Regarding two-wheeler side, maybe like you rightly said, there is a momentum, which is visible maybe from June onwards. And June was maybe operating at around 50% to 55% level and we expect that at least July should close somewhere around 65% of the pre-COVID levels. And as of now, I think in the two-wheeler side, the demand is maybe really picking-up because of this personal mobility push after COVID scenario. And supply chain has to cope-up, what has been given to understand with the various OEM interactions. So it looks like there, the things are picking-up in two-wheeler very, very well and followed by the 4w business, which is in PV and I think CV will take some time to catch up, today what the trend follows. Yes, over to you,

Vellayan Subbiah: Yes. And I think in terms of industrial and general, definitely we are seeing like Mukesh is seeing on the two-wheeler side, we are seeing July being better than June. So that is a kind of big take. Honestly, we do not want to make any commentary for kind of, what the future is going to look like and all that. But the positive thing is that I do see July being better and if that trend continues, it is a good thing.

Ashutosh Tiwari: Okay. And sir, secondly, how are the things shaping up in the aftermarket in Chains business? Is that picking-up more fast?

Vellayan Subbiah: Yes. K. R. S. would you like to respond?

K. R. Srinivasan: See, because of this COVID situation, the aftermarket is really looking better even before the OEM started their manufacturing, aftermarket has picked-up. And as soon as we are concerned we could engage with our channel partners and we could really do some good business in the first quarter. Aftermarket we really look very positively right through the year.

Ashutosh Tiwari: So is it like going back to the normal levels now in July?

K. R. Srinivasan: I mean, I can tell you we have more or less reached a pre-COVID-19 level in the aftermarket.

Ashutosh Tiwari: Okay. And sir, lastly, if I may ask on the railway side, is there also the tendering everything is getting delayed or there things are better than other segments basically?

Vellayan Subbiah: Railways is getting significantly delayed. Again, K. R. S., why do not you talk to that?

K. R. Srinivasan: Yes. Railways is getting delayed, because they are finding it difficult to run the operations within the coach factories because of the current pandemic scenario. Even the allocations in the central polls event to the respective coach factors are getting delayed and also are not in the same level as they used to be. So there is a significant delay in railways. We are expecting at least things are postponed by about three months.

Moderator: Thank you. Our next question is from the line of Shyam Sundar Sriram from Sundaram Mutual Fund. Please go ahead.

Shyam Sundar Sriram: Sir, just a couple of questions on the Metal Forming division. In the AGM, you highlighted the auto aftermarket revenue has doubled in FY 2020, did I hear it right? I mean, some 20% of the Metal Forming, it has now become 40%, firstly, just a house keeping there. and Metal Forming as a division, if you see the EBIT margins, from FY 2016 to FY 2020 has not really improved much. Even in Annual Report we have spoken about increasing opportunities on the industrial chains, auto aftermarket being good, 50% growth in railways. So, what are some segments within Metal Forming that are proving challenging in terms of being margin accretive? And just an addendum to that from a railways perspective, our acquisitions necessary to grow in railways, we are hearing some bidding for industrial for engineering company. So just to understand, our acquisition necessary to grow in railway, so these are the basis on the other Metal Forming.

Vellayan Subbiah: Thanks, Shyam. So let me just answer the question on acquisitions. I mean, like we have told you kind of, it definitely we think that railways is an area where acquisitions are appropriate, because it does take a long time to basically get approval. And the railways tends to be kind of fairly loyal to their supplier base. So we do see it as a good area kind of from an acquisition perspective.

To your earlier questions on Metal Forming, again, I will let K. R. S. out respond to that.

K. R. Srinivasan: Yes. You asked about the EBIT margin. See, Metal Forming a set of business, which are dependent on two-wheelers, four-wheelers and railways and industry change. It is a combination of all these businesses. So what you see is we are in an aggregated EBIT.

At the individual level, if you see, there had been strains on the EBIT margins on the four-wheeler, that is basically because the market went down last year on the four-wheeler as you know about minus addendum (-13%), (-14%), which actually affected our overall top line to that extent, the fixed costs absorptions were not as much. As far as two-wheelers are concerned, that region has done pretty well. In fact, they have improved our EBIT margins and the PBT as well.

As far as railways are concerned, we are really very positive, and we are looking ahead for a good growth in the railways.

Shyam Sundar Sriram: Understood, sir. Sir, and whether auto aftermarket revenue doubled, like you mentioned in the in the AGM or did I hear it somewhere wrong that is why, just the housekeeping there?

Mahendra Kumar: So basically the 20% or 40% part that has happened Shyam because the OEM levels drop significantly last year. Common restructuring has caused that to move up.

Shyam Sundar Sriram: Understood. Just one question, in the Annual Report, we have highlighted, a lot of import substitution opportunities in the Engineering segment and a very strong export order book in Metal Forming. Now, exports have always been a focus for us in terms of the overall business, you have spoken about it in the past. So if you can highlight what are the import substitution opportunities in the engineering and the export opportunities from the Metal Forming slightly more perspective on that will be very helpful? And how does exports look from a three year perspective? Thank you.

Vellayan Subbiah: Metal Forming exports is predominantly industrial chain. Now, we are beginning to explore Auto Chains as well. But your question on import substitution for engineering, I will let Mukesh answer that again.

Mukesh Ahuja: Yes. In engineering division basically import substitution, we made some CAPEX in the last year maybe to upgrade our capability, where maybe we find there is an opportunity, where a lot of cold rolled strips are getting imported from in the industry. And we are focused maybe let us say customer wise and maybe developments are very, really progressing. And this quarter also, we could find out some new product development and we aligned with some four customers to five customers and we see going forward, it will be a growth area for us.

Moderator: Thank you. We will take our next question from the line of Prateek Poddar from Nippon India. Please go ahead.

Prateek Poddar: Sir, could you just talk a bit about how are you thinking of the breakeven points? And is there scope to further reduce it? From your commentary, it looked like that breakeven points for us would be closer to 50%. Are there any thoughts about post-COVID? Obviously, we have done a great job in terms of improving on breakeven points. But is there more scope or more juice to build on that?

Vellayan Subbiah: Yes, so I think, that is a good question, Mr. Poddar. So, obviously, I think nothing has made us look at breakeven points as cleanly as this whole incident right of COVID. I would say the encouraging thing for us is that we are seeing, I mean, the engineering segment has actually kind of done the most work on it and has been able to kind of push their breakeven point significantly. Metal Formed, we still see some opportunity there. And so we are going to work on that kind of fairly keenly over the next six months to nine months. But I am really encouraged because a number that was north of 70% two years ago, we have been able to push it down to a point where at 50% - 52% we have been able to kind of push a slight profit. So that in itself is encouraging to me. If your question on is there no juice, I will say kind of definitely, we see opportunity in a Metal Formed business and so we are going to focus there to kind of try and see how we can get more from that. To see how we can push the breakeven down, going further down in that business.

Kalyan Kumar Paul: Cycles also had made good improvement, there also the role of significant production to breakeven the rest.

Prateek Poddar: Okay, understood. And sir, second question is post-COVID, one of the growth strategies for TII as highlighted by you as acquisition. Post-COVID will, that leg see acceleration now? Are you seeing more opportunity in terms of acquisitions? Could you talk a bit about it?

Vellayan Subbiah: I think, we have had at least, two more kind of opportunities get added to the mix in terms of what we are evaluating. And definitely, I think that is going to be the case. So there will be more opportunities that offer themselves.

Prateek Poddar: So the pipeline is fairly healthy, if I can think of it that way that post-COVID the pipeline has increased.

Vellayan Subbiah: Absolutely.

Moderator: Thank you. Our next question is from the line of Mr. Kashyap Pujara. Please go ahead.

Kashyap Pujara: Actually, I have a question as an extension of what Prateek just asked and that was mainly that post-COVID, how do you see the landscape changing? Mainly not just breakeven points, but how are you thinking directionally on costs? Earlier, I remember, even before-COVID, you had kind of alluded to achieving 10% PBT margin sustainably, which and potentially taking that figure up to 12% to 15% over time on the core business categories that we currently operate in? And now that COVID has actually struck, do you think that certain costs are being re-thought about in a way where structurally the cost trajectory might look different and certain costs can be eliminated completely? And hence, the margin trajectory given normalcy in top line, whenever it happens, the overall margin trajectory should be definitely better.

So one is, how are you thinking on those fronts? And second, would be on the overall strategy, post-COVID do things the way we were thinking about our business before-COVID in terms of extensions or adjacencies and acquisitions and certain focused markets within the current opportunity set that, have any of those elements gone through change? And are we dropping some of some of the earlier plans or re-drawing new plans. How do you kind of articulate these softer aspects?

Vellayan Subbiah: Yes. So Kashyap, your first question, right in terms of what changes do we see there? You were talking predominantly about kind of, do we see the ability to change our cost structure a bit more drastically?

Kashyap Pujara: Yes.

Vellayan Subbiah: And there the only thing I would say is kind of to us, it is a combination of three things, right. It is a combination of kind of industry, structure, conduct and performance, right. And what you were talking about is kind of just more performance oriented, which is, you see people kind of sharing off or getting more aggressive on their cost structures. But also, what we are beginning to see is kind of changes in conduct and changes in the way kind of some of the supply side conducts themselves and there will be changes on the demand side as well.

So because, what is beginning to happen a bit on the supply side is that the weaker suppliers obviously are in more of a cash crunch situation, right. And so where they might have been willing to kind of be more flexible in the past, some of them are less capable of being more flexible, because they do not have the balance sheets to support it. So that I think, will either lead to a change in industry structure over time or what it will lead us to a situation where the amount of pricing, aggression or the amount of pricing competition kind of goes down a bit, right? Because these guys cannot afford longer working capital cycles or kinds of thinner margins.

So I think that industry structure changes that come out post-COVID and industry conduct changes are going to fall outweigh industry performance changes. And I think that that is going to play to our advantage because luckily, we have a stronger balance sheet. We have more staying power, and we basically are playing a much, much longer game, right. So that is to the first question.

To your second question Kashyap, in terms of whether the strategy is changing. I think, like I said earlier, what we see is that this market will offer up more opportunities. And you just have to be patient and be able to kind of make the right calls when it comes to that opportunity and how we capture it. So, I just think it kind of is coming back to a question of, a level of just like how kind of calm we can be and make sure that we make the right choices when we kind of pick what we go after.

Moderator: Thank you. We will take our next question from the line of Abhishek Ghosh from DSP Mutual Fund. Please go ahead.

Abhishek Ghosh: Sir, just continuing with the earlier point that you mentioned that there are changes that you will see in the way the business is being done. Now, a couple of other sector players tells us , that suddenly a lot of the businesses had turned into cash, whatever earlier, you were having, channel financing, and other things, suddenly the entire channel has or the entire business has turned into cash. Is that you are also seeing in your set of businesses?

Vellayan Subbiah: Now, when you say kind of on a cash basis, I mean, as you know we deal with very large customers and very large suppliers. So for example, our largest buy is steel right and from the likes of JSW and Tata Steel. And our customers are also very large, right, like all the two-wheeler, four-wheeler, and CV manufacturers. So, if you are ask me, if those guys on either end are moving to cash basis the answer is no, because I do not think that they are moving. So I do not know if that answers your question or you had another kind of element to it.

Abhishek Ghosh: No. Since your is more B2B probably a difficult element to kind of pursue with that kind of business model mix, okay. Also, if you look at on a quarter-on-quarter basis, and this question may not be so much relevant on Y-o-Y basis, we see a deterioration in the gross margin. Is it because of higher proportion of revenue coming in from Cycles? So Cycle has obviously declined lot lesser, so proportion of Cycle business is lot higher. Is that the reason for the gross margin deterioration?

Vellayan Subbiah: On the gross margin,

Mahendra Kumar: Let me answer that. Yes, that is one of the reasons, that is not the only reason. So we need to see this as a portfolio of businesses also. So some of the high margin businesses in the total mix also to show that kind of performance. So, we should not draw conclusions based on Q1 because it is a truncated quarter and the restricted operations. So, if you really look at the overall structure of business, nothing had changed in terms of gross margins compared to the earlier year. There is only the mix of businesses which is playing the role.

Abhishek Ghosh: Sure. And FY 2020 had an employee cost of almost about Rs. 450 odd crores because of whatever VRS you are kind of implementing, what should it look like? Obviously, there could be a lot many changes, but only because the VRS impact what can be the employee cost reduction like going forward?

Mahendra Kumar: Yes. So the VRS is only part of it is implemented, the remaining part is yet to come. Like what we mentioned in the earlier calls, we are typically looking at a payback of four years to five years for VRS spending which are making. So you can calculate based on that.

Abhishek Ghosh: Okay, fair enough. And just one last question, in your Annual Report, you have mentioned that, if you look at the industry of Cycle, it is almost about 79% - 80% of the industry is controlled by top four or five player and you almost have a 24% - 25% market share and still the profitability is fairly low. So should we look at that part of the business, because a very few businesses where marketing deliver 24% - 25% market share either is a product demand issue, or how should one look at it? Can you just help us understand that?

Vellayan Subbiah: So we do believe that there is opportunity to improve the margin in that business. And Kalyan Paul, K. K. Paul and his team have done a great job in actually turning that business around to where it is today. Also, for the first time, last quarter, that business has gone to negative net working capital. But let me ask Paul to talk about the opportunities he sees to increase the m in that business going forward. Paul?

Kalyan Kumar Paul: Even in the first quarter, I think, we have improved our margins over the last year first quarter. And we are moving forward, I think we are concentrating on certain specific segments that will allow us to keep our margins not improve dramatically, because last year, we improved a lot, but keep it at that level. We are actually going in for a share gain, phenomena over the next two quarters or three quarters, because the market we believe the overall is not going to grow. And hence, therefore, we have to take this opportunity to do that. But there will be an overall improvement in terms of what kind of results we will show in the coming quarter. So that distinctly drawn up as far as we are concerned and whatever new opportunities that are coming through in terms of exports, etc. will allow us to shore up the top line and ensure some stability in the business and that is the way we are going to proceed in the next three quarters. Rest, I have answered.

Vellayan Subbiah: Just to add to what Paul said, right, so I think the first thing is that it used to be a 0% PBT to sales business. Our first step will be to get it to I would say like about 6% PBT to sales, right and I am taking about PBT not PBIT. That will be our first step. And just in that step some of the basic things that have been done is, Paul has done a great job of kind of rationalizing the entire logistics infrastructure, we have eliminated warehouses, we are down to kind of two warehouses across the country now in addition to the factories. We have also done a lot of work in terms of now channel development to basically improve our relationships with the channels, done a lot of work on new product development to ensure that our products are very competitive in a market out there. And fourthly, kind of in terms of looking at both manufacturing and sourcing rationalization to improve the overall margins in the business. We shifted the large chunk of the production up to our northern factory, which is closer to the raw material supplier. So I think that some of these steps have begun to pay off where we have got a higher PBT to sales like Paul said in last year. But definitely there is going to be more headroom for improvement on that, which we will see playing out over the next 12 months or so.

Abhishek Ghosh: And just one last question in terms of we are also hearing a lot on railways in terms of privatization of passenger trains, is that something that you are looking as an opportunity for you guys from these things or it is going to be regular for you?

Vellayan Subbiah: Currently, no because that is a very different business. We see ourselves much more as an industrial than manufacturing player and that is much more a consumer play so from that perspective we are not looking at that right now.

Moderator: Thank you. Next question is from the line of Bhagyesh Kaigaonkar from HDFC Mutual Fund. Please go ahead.

Bhagyesh Kaigaonkar: Sir, regarding the electric scooters and three-wheelers at least in the two-wheeler government has become firm that in next two to three years at least 2 or 3 million of EV two-wheeler should be there and outside India also governments have harden their stance, they are not bothered about whether crude goes down or up essentially. So, in view of that what are the challenges for us one is China issue, the Korean components and the Japanese components and how do you see the path forward for next three to five years what are the initiatives?

Vellayan Subbiah: See first of all we have looked at a space and we are seeing three-wheelers and two-wheelers quite differently. Right now we are seeing that there seems to be a massive crowding going-on on the two-wheeler side with almost 35 new entrants and let us say between kind of existing players or 35 kind of new companies with products coming out there whether it is a new company or an existing company with an electric product into these kind of whole plethora of them and honestly, I think that we are trying to see what is going to happen, how that industry kind of going to conduct itself in the near-term. So, basically what we are saying is in two-wheelers we are continuing to evaluate kind of how we will go to market. We are standing back a bit because we see a massive rush right now and so much crowding that we do not feel like going in as a 36 players make sense. On the three-wheeler side we are getting a bit more kind of aggressive with our plans so there we are kind of doing some development, but we are just trying to establish now how long it will take to get a product to market in that space, but we are keen on that space. We think that the two-wheeler space will go through first of massive kind of price competition and then a lot of players will get burned. So, I do not know if it makes sense at this stage to go in to a massively crowded market though we are evaluating kind of space and seeing if there are potential kind of empty areas that we can go in and compete, but it just looks very crowded right now.

Bhagyesh Kaigaonkar: Three-wheelers we are more now it will have too much competition actually as of now?

Vellayan Subbiah: Correct.

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

Anumpam Gupta: So, just three questions first continuing with Bhagyesh's question let us say in terms of the market size for you if we move from the internal combustion engine based vehicles to electric vehicles across let us let us say two-wheeler, three-wheeler and four wheeler, what sort of market size scales happens for you in terms what products you can offer to the OEM?

Vellayan Subbiah: We are not looking at offering products to the OEM, we are looking at the OEM.

Anumpam Gupta: In that sense what you are saying let us say if I take the example of two-wheeler where you say front fork is a large product for you, you will keep supplying that to OEMs or will that not be a part of the strategy just as an example?

Vellayan Subbiah: The front fork basically by the way obviously exist in both IC two-wheeler and an electric two-wheeler and we will continue to obviously supply the front forks to both IC two-wheelers and electric two-wheelers.

Anupam Gupta: So basically the way I understand is you are saying whatever the existing portfolio continues if it has a market in electric vehicles and along with that you will also be wanting to gain OEM in the electric side?

Vellayan Subbiah: Absolutely that is correct.

Anumpam Gupta: Secondly, in the call earlier you mentioned change in the conduct of OEMs and suppliers and your peers so one thing if you see at least on the supplier side to you is that lot of metal communication so they are also focusing a lot on the working capital side, similarly I would assume on the auto OEM side they will also want to be focus on the working capital and other terms, so are you seeing pressures from those side or are you able to take advantage of that in terms of getting lower cost of product or lower cost of the items which you buy, what sort of dynamics are you seeing there?

Vellayan Subbiah: So, obviously there is more pressure from the OEMs, there always is, but like I said if you have a stronger balance sheet in your peers then you are able to handle that better than some of your peers are able to.

Anumpam Gupta: So basically what you are saying is given the pressures you will be stronger and maybe take advantage of this effectively that is what your message is.

Vellayan Subbiah: Correct.

Anupam Gupta: And thirdly on acquisitions so you have highlighted that you are obviously keen on acquisition in certain products, but let us say if you look at it from the balance sheet perspective what size of acquisition whether single or multiple, would you be comfortable doing going away existing balance sheet and the cash flow if you see over the next couple of years?

Vellayan Subbiah: So obviously kind of we had said that what we would put kind of outside was three times cash flow and that would kind of help determinate. Now obviously we cannot get very deterministic about the size of the acquisition. It will depend on the opportunity and whether we feel like it is a good opportunity for us to grab or not, but that is the indicative range that we have given I believe in the past and we continue to stick with that.

Anupam Gupta: And railways you mentioned is obviously needs an acquisition there, but which other segment let us say engineering will be the key focus would it be domestic or whether it would be exports if you can just elaborate a bit on that?

Vellayan Subbiah: Obviously, we like the idea of having a strong domestic base because our fundamental premise is that to be good on exports, it is always useful to have a strong domestic base. So definitely on engineering side having a strong domestic base we see as an advantage, but if there were any just fully export based opportunity that comes up in the sense we would be manufacturing in India that part we are very clear about that manufacturing has to be here. As long as the manufacturing is here, we will evaluate such opportunity.

Moderator: Thank you. Next question is from the line of Shashank Kanodia from ICICI Securities. Please go ahead.

Shashank Kanodia: Sir, my question is pertaining to the bicycle division that we have so initial news that you have mentioned about bicycle is a segment getting traction in developers both for fitness as well as social distancing norms obviously this quarter there was a supply side issue, but on a demand side have we witness any green shoots for some initial color on that front?

Vellayan Subbiah: Yeah, I think that is a great question again I will turn it over to Paul who runs at business to answer because he has got a closer perspective on it and I will be happy to supplement if needed. So to your question yes, we are beginning to see more domestic demand and the demand in the month of June was quite strong and we do feel like that demand will sustain coming in for the next couple of months. Our visibility beyond that is a bit tough, but we are seeing a lot of encouragements where people are looking at this as more of a lifestyle issue and lot of demand both in kind of slightly more premium bikes and in the high range as well. So, yes we are seeing kind of green shoots there and it is quite positive.

Shashank Kanodia: And sir secondly sometime back there was also news items mentioning Atlas Cycles being closing their shops, so is it a permanent thing and does it give some advantage?

Vellayan Subbiah: Yeah, so definitely they are pretty much out of the market right now whether it is permanent or not we cannot tell, but they are out of the market right now and that is definitely helping kind of us increase share I mean basically there are couple of people who are benefitting from it and we are one of them.

Shashank Kanodia: Were they mentioned more on the institutional side or more on premium cycle front?

Vellayan Subbiah: They were there on institutional, but I think basically where it is helping is on the trade. On the trade side, there is a standard which is where Atlas was larger so definitely helping us there and Atlas was smaller on the specials. So there are some benefits on the specials, but more of it is on the standard.

Shashank Kanodia: Sir, lastly on the overall business perspective if you could share your share of revenues between auto and non-auto and within auto if you can share some segmental between two-wheelers PV and CV segment?

Vellayan Subbiah: Broadly we have indicated these numbers in the past, Mahendra do you wanted to give broad indications on these?

Mahendra Kumar: So Q1 may give a misleading picture, but generally if you see the full year of last year it was about 60% auto and 40% non-auto.

Shashank Kanodia: And sir within auto how much between two-wheelers PV you probably CV segments?

Mahendra Kumar: It is more on a 50%-50% constraint.

Shashank Kanodia: And sir within two-wheelers do supply to the likes of Hero and Bajaj or we are more towards PVs…

Mahendra Kumar: In fact, our products go into almost every two-wheeler, we supply to many OEMs.

Moderator: Thank you. Next question is from the line of Nimesh Shah from Emkay Investment Managers. Please go ahead.

Nimesh Shah: Just a couple of questions data point question what was the export mix for the quarter?

Mahendra Kumar: Okay we will look at that what is the next question.

Nimesh Shah: So, on an FY20 basis if you can share what was the mix of railways for the full year numbers?

Vellayan Subbiah: Railways is very small actually we do not release kind of we are seeing specific data, but I would say it is maybe somewhere around 5% of the overall.

Mahendra Kumar: So export for about 14% during Q1.

Nimesh Shah: So I was asking in terms of a new products are they on track or is there some delay in terms of the launch?

Vellayan Subbiah: There have been a delays especially like for example, for the lens business we have not been able to kind of get it fully up because of the challenges we have been having. It is all the equipment is coming in from Korea though the equipment is here it has been a problem getting the expert to install it because they are all Korean. So things like that have been delaying some of the products. So I would say most probably we are seeing at least a three to four months delay as a result of this.

Moderator: Thank you. Next question is from the line of Darshan Engineer from Alchemy Capital. Please go ahead.

Darshan Engineer: So, I wanted to know one book keeping question from FY20 the export of diameter tubes, what would have been the degrowth in FY20?

Mukesh Ahuja: Yeah large diameter tubes basically it is associated with the commercial vehicle and like you witness maybe commercial vehicles were down close to about 35% last year so we have seen similar kind of downturn in our numbers also.

Darshan Engineer: And also going ahead what kind of growth outlook do we expect for this particular line of segment considering that there were trade restrictions imposed by US and anti-dumping duties on this diameter tubes?

Mukesh Ahuja: Irrespective of that what has happened you have rightly said that US has put some anti-dumping duties on all of these things. We started this work maybe around two, three years itself to develop alternate market and we are progressing well to what is that alternate markets in case if US anti-dumping is not working it out and we are well prepared to handle that.

Darshan Engineer: And sir secondly on this new business initiative like TMT Bars and the truck body building business my longer term structural question is that why do we plan to enter into these business this is because these are fairly commoditized business I would say and therefore I mean what would be our right to win in this particular two business line and therefore generates this (+20%) ROC is in this kind of business also?

Vellayan Subbiah: See truck body for example it is a commoditized play today, but it is a play that we see shifting significantly from unorganized to organized. The average truck body guy makes like three bodies a month and the quality is very suspect and we were already seeing that a lot of these guys now are shutting shop because it is just a tough working capital business and it is not ideal to be in the unorganized state as it seems. We believe that India is going to have a shift to quality and some of these unorganized businesses will shift to more organized and that is why we basically see the opportunity in both truck definitely much more in truck and I think the truck is less of a commoditized player in TMT, but even in the TMT space basically what happens is that it is pretty much an unorganized business today and there are huge premiums associated with the brand. When you call TMT Bars commoditized you should also see that there is almost like a more than a 15% spread between pricing in some cases more than 20% spread between pricing of like Tata, JSW, TMT Bars and other TMT Bars. So, there definitely is value for a brand and so we do not see the space as commoditized as it is kind of sometimes made out to be.

Darshan Engineer: So, we can expect that similar level of ROCs in these two business also in a steady state environment?

Vellayan Subbiah: That is a correct because we are very conscious as to how much capital we employ in this businesses as well.

Darshan Engineer: And sir one last question from my side I mean you have done a great work in terms of improving gross margins and reducing working capital cycle across all businesses at the same time we are planning to enter into railways in a big way as well as enter into some of this other business lines which again I mean I would say I mean railways we know because the government oriented the working capital cycles would be quite elongated, so how do we plan to resolve this dichotomy on one hand we want to reduce and improve our ROCs and everything and on the other hand despite being a very strong lucrative business the capital employed in such businesses are quite high, so what are your thoughts on resolving this dichotomy?

Vellayan Subbiah: See honestly this is the mix challenge that you got to constantly keep juggling if somebody ask a question on cycles hey listen how you make 10% PBT to sales it is a valid question, but cycles now has got a negative networking capital, now if some other business might help kind of push PBT to sales up, but might take so much a bit more working capital, so basically what I am explaining is that this is the constant portfolio acquisition that basically as the management committee we need to constantly make to play these tradeoffs to ensure that if we take all of our businesses government business obviously that will kill us. So all I am saying is that this balance is the constant portfolio balance that the management committee continuously needs to evolve and ensure that we are delivering the right results to you or owners.

Moderator: Thank you. We will take our next question from the line of Ashutosh Tiwari from Equirus. Please go ahead.

Ashutosh Tiwari: We had a CAPEX plan of almost 200 crores in this year and a large part on the new products, so is that intact or in the current scenario they cut back on the CAPEX plan?

Vellayan Subbiah: There are couple of components that are intact which are like there is a mill for the engineering business that is intact, but we have also talked about a particular kind of stress assets that was available in China that we were evaluating. Now we cannot push forward with that right now, evaluating this geopolitical situation as well because we do not feel like it is a right time to do some of those things. So I would say kind of there are chunks of it they are still intact, but some of it is going to depend on the environment. So, I would say 50% is certain the other 50% will depend on the environment.

Ashutosh Tiwari: And sir secondly I mean we talked about that product of tubular products for export market from the engineering side like because the China issue are you seeing more such opportunity like say I mean more opportunity in terms of doing some product in export market or just too early to say?

Vellayan Subbiah: Mukesh Ahuja why do not you answer from a tubular product perspective and then others can give their perspective as well.

Mukesh Ahuja: Like our MD mentioned particularly whatever CAPEX we are investing it in that particular direction we already started the work with all the OEMs and it is a global product what we are developing it and we are in the stage of sample submitting in all these things and hopefully by the time our CAPEX is in place maybe our customer approvals in all those things should also progress simultaneously and maybe let us say and this is an approach what we are falling as of now.

Ashutosh Tiwari: But are we getting more opportunity in terms of looking at more opportunities in terms of China substitution in exports as well as domestic?

Mukesh Ahuja: Yes, I mean let us say this is looking like opportunity going forward and maybe because we have an already good customer base for our export markets. So we are in touch with customers it looks like to be opportunity and we are evaluating that and like you are aware in export markets maybe takes time to get the approval cycle and all these things so those process we have started and let us see how it goes forward.

Moderator: Thank you. Next question is from the line of Nath Balakrishnan from Spark Fund. Please go ahead.

Nath Balakrishnan: I have two questions so when I look at your numbers of FY20 because I think they are more representative then looking at Q1 numbers, so what proportion of your metal formed product business is comprised by your auto chain business?

Vellayan Subbiah: I do not think we gave individual components, but Mahendra you can give a directional number what is it about one-third.

Mahendra Kumar: We do not give the segmental information actually for metal formed products.

Nath Balakrishnan: And will it be again fair to assume that that is again split equally between OE and replacement?

Vellayan Subbiah: That is fair.

Nath Balakrishnan: My second question essentially sir is again looking at this number in the context of thrust on EVs now how do you see the OE piece of your auto chain business of course replacement piece will continue to remain, but is that something that you see as a business that is being overtaken in the OE piece of your change business?

Vellayan Subbiah: Yeah definitely in our planning we see that will go away.

Nath Balakrishnan: What is your timeline, your assessment in terms of timeline by which this will happen?

Vellayan Subbiah: What I am saying is that we are not going to put more capital into that business we see it going away, we will have to keep kind of looking at it and see how it kind of evolves overtime, but it is not going to take our capital investment.

Mukesh Ahuja: There is some distinction between drive chain and cam chain. Cam chains will first go away, drive chains are expected to continue.

Moderator: Thank you. Next question is from the line of Sreemant Dudhoria from Unifi Capital. Please go ahead.

Sreemant Dudhoria: Sir, few questions firstly you highlighted about the three year growth opportunity in the seating solution business yesterday in AGM, just wanted to understand how big be this, so you talked about the growth in this business from a three year perspective just want to know on absolute basis could this be a big opportunity?

Vellayan Subbiah: Yeah, absolutely we see it as a big opportunity. In that business we see that as a biggest growth plan.

Sreemant Dudhoria: And secondly what kind of asset turns we are looking from my investment in the bus body building solution in the truck body building solutions?

Vellayan Subbiah: There is no asset incentive like you had asked a question yesterday and I said the total capital outlay will not exceed 9 crores. So basically the asset turns are very high from that perspective, fixed asset turns at least. So we believe that we can turnaround a lot from that because it is not dependent on just these four locations. We also have partners build the bodies for us.

Moderator: Thank you. Next question is from the line Anupam Gupta from IIFL. Please go ahead.

Anupam Gupta: Just wanted to get an idea on the export side, so exports I have seen significant growth for you except maybe last year but can you give me some idea on what is the sort of OEM addition which you have seen over the years and in terms of your development team which you have put in how has that expanded to grow the export business?

Mukesh Ahuja: Yeah on export side like we discussed in the previous call we see that maybe opportunity also coming from the China alternate solution also and also maybe we are working since last two years with the selected OEMs maybe to take our export grow forward and in fact let us say day before yesterday itself we assigned one contract for exports to China and all these things and which is going to give a good growth to us in the coming quarters.

Anupam Gupta: But in terms of OEMs what sort of addition if you put in a number what sort of customer addition we have seen over the years?

Mukesh Ahuja: Actually let us say the concept remain same only because in India also we are strong in the supplies to the automobile market so maybe let us say here the concept is we are going to supply to the auto OEMs Tier-1s like something to do with propeller shafts, something to do with skidding systems, something to do with sky road and front forks even South Asian markets so these are our four focus areas.

Moderator: Thank you. We will take our last question from the line of Rohit Ohri from Progressive Shares. Please go ahead.

Rohit Ohri: These questions are related to Shanthi Gears, we seldom talk about them so if you can just give a broad outline as to what is your order book for Shanthi Gear, the CAPEX in terms of growth CAPEX that they have done, new products if Shanthi is launching any because I read somewhere that they are looking at some robotic processing as well and I know the exports of Shanthi Gear should be around 4% or 5% is what I remember from the previous con-call, so in the next three years down the line what do you think that Shanthi can take the exports to and the parent company TI also speaks about sales and services if I am not wrong Shanthi Gear can play a very major role over here, so if you can just?

Vellayan Subbiah: Parent company talks about?

Rohit Ohri: The sales and services after sales after market?

Vellayan Subbiah: So the aftermarket for a parent company is predominantly in the auto chain area whereas Shanthi's applications are mainly industrial. So service business which is a growth area for Shanthi does not help too much the aftermarket chain business because aftermarket chain predominantly talking about auto chain like two-wheeler and stuff like that. The second question were the CAPEX for Shanthi I believe this year is in the range of about 15 to 20 crores.

Rohit Ohri: These are the growth CAPEX would be what and what would be the maintenance CAPEX out of these 15, 20 crores?

Vellayan Subbiah: It is all growth CAPEX.

Rohit Ohri: I was asking about the order backlog and the new products in terms of the robotic processing that they were working on?

Vellayan Subbiah: I do not know if we have talked about it in public. We are looking see basically we are constantly evaluating new products and so we are looking at things in the robotic space, but fairly complex years to produce so it is still very early in the evaluation stage.

Rohit Ohri: And the export expectation from next three years or so?

Vellayan Subbiah: So we are trying to push that number up and like you said it is about 5% to 7% right now we are trying to push that number up to double digits.

Moderator: Thank you. I now hand the conference back to Mr. Kashyap Pujara from Axis Capital for closing comments. Over to you, sir.

Kashyap Pujara: Thanks everyone for being on the call and all the best to the management of Tube Investments to continue delivering on investor expectations over the next three to five years.

Vellayan Subbiah: Thank you Kashyap.

Moderator: Thank you very much. Ladies and gentlemen on behalf of Axis Capital that concludes this conference. Thank you for joining us and you may now disconnect your lines.