"Tube Investments of India Limited
Q3 FY2021 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY2021 Earnings Conference Call of Tube Investments of India Limited. This call is hosted by IIFL Capital Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anupam Gupta from IIFL Capital Limited. Thank you and over to you Mr. Gupta.

Anupam Gupta: Thanks Margaret. Good morning everyone and welcome to the post results conference call for Tube Investments. From the management we have entire team joining us for the call led by Mr. Vellayan Subbiah who is the Managing Director, we also have Mr. Arun Murugappan who has taken over as the Chairman of the company recently, we have respective business heads Mr. Mukesh Ahuja, heading the tubes business, Mr. Srinivasan who heads the metal forming business, Mr. Paul heading the cycle business and we have Mr. Mahendra Kumar who is the CFO. We have finance team also joined led by Mr. Ramanujam. So, I will hand over to Mr. Vellayan for further comments and then take over for the Q&A. Over to you Sir.

Vellayan Subbiah: Thanks Anupam and good morning everybody. Just quick highlights for the quarter, our revenue for the quarter was at Rs.1309 Crores compared with Rs.976 Crores in Q3 of last year, our profits before tax before exceptional items was at Rs.145 Crores and that is the growth of 53% over the same period last year. Return on capital employed was at 26% compared to 20% for the previous year same period, also the good news is that we continue to keep a very high free cash flow, PAT ratio and this quarter we generated free cash flow of Rs.130 Crores. The company also declared an interim dividend of Rs.2 per share. For the first time this quarter the company has actually gone to negative working capital. The PAT for the quarter was Rs. 107 Crores versus Rs. 78 Crores for the corresponding period last year.

In the individual businesse segments, engineering had a very strong quarter, revenue was Rs.733 Crores compared to Rs. 502 Crores, , and the PBIT was Rs. 102 Crores against Rs. 60 Crores. Cycles and accessories also had a very strong quarter with a revenue of Rs. 234 Crores as against Rs. 146 Crores and PBIT was Rs.15 Crores compared with Rs. 1 Crore in the same quarter last year. In Metal forms, the one area that was not as strong was railways, but overall revenue was Rs. 393 Crores versus Rs. 370 Crores in the same quarter last year and PBIT was Rs. 46 Crores as against Rs. 33 Crores in the same quarter last year. This quarter for consolidated results we also have one month of CG Power results., So including that our consolidated revenue was Rs. 1700 Crores as against Rs. 1087 Crores and profit was at Rs. 159 Crores as against Rs.

99 Crores. As you all know we acquired controlling stake of 53.16% in CG Power and Industrial Solutions during the quarter. The revenue for CG Power for December 2020, is Rs. 276 Crores and PBT was Rs.7 Crores. Our subsidiary Shanthi Gears had revenue of Rs. 65 Crores versus Rs. 58 Crores in the corresponding quarter and PBT of Rs. 10 Crores versus Rs. 8 Crores in the corresponding quarter.

So, commenting on the financial results Mr. M.A.M Arunachalam Chairman of TII also said, TII delivered strong results driven by the overall revival of the economy and easing on the lockdown restriction due to COVID-19. The company is witnessing improved performance in most of the segments and expects the momentum to continue as the economy has started showing signs of revival. So that is a quick summary on the quarter. So, let me stop with that to turn it over to the audience's question.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Niket Shah from Motilal Oswal AMC. Please go ahead.

Niket Shah: Thanks for the opportunity and congratulations on yet a good set of quarter to the entire team. I have a few questions. First if you can give us a brief sense of how much was the volume growth across segments because this quarter would have seen substantial amount of realization growth as well?

Vellayan Subbiah: Obviously we do not give data in too much granular details, Mahendra can share it just for overall aggregate level across engineering.

Mahendra Kumar: It is shared in the segment results in terms of the total revenue, but in terms of volume cycles had a very good growth of close to about 70% year over year in terms of volumes, engineering also had pretty strong growth including large dia and also the CDW tubes. The overall growth in this segment was anywhere between 28% to 50% and in metal form products also it ranges anywhere between, leaving aside the railways, 10% to 30%.

Niket Shah: Sure, that is very helpful. The second question was on the metal form part of the business, if you have to look at the Y-o-Y numbers, the growth appears to be lower compared to the other businesses, is it largely on account of railways itself or because there are other categories like door panels, fine blanking industrial chain, assuming all of them would have done far better in this quarter so is it just on account of railways that the growth is lower or is there something else that we should be looking?

Vellayan Subbiah: Yes, accurate, actually railways was the biggest lapse in growth.

Mahendra Kumar: There are a few new businesses also which are clubbed under this but that is not a big number. It is mainly railways.

Niket Shah: The last question was on the PLI scheme which the government has rolled out, how are you looking at that as an opportunity from your perspective, that is the final question. Thank you.

Vellayan Subbiah: We are evaluating that and I do not think we have an answer for it now. We are looking at both sides which is like our existing businesses if there are any adjustments we need to do or other new things that we can get into., But we do not have a perspective on that yet and I think the next quarter perhaps we can have a better perspective on that.

Niket Shah: Perfect Sir. I will come back in queue for more questions. Thank you.

Moderator: Thank you. The next question is from the line of Sujit Jain from ASK Investment Managers. Please go ahead.

Sujit Jain: Hello team and congratulations on a good set of performance some remarkable improvements both in TII and as well as the turnaround in CG that you are on. I have few quick questions you can just note them down. In media, there are articles that TI could be looking to enter into auto manufacturing. CG power, obviously few steps at a time, but if I look at the competition, competition is already moving in the direction of opex as an opportunity. These are the templates they are developing worldwide and taking those used cases putting sensors on equipment and have started selling those solutions for IOT based, so directionally eventually how does the group look forward to. Retail HT motors there will be a non-compete agreement between CG and Crompton Greaves, when does that get over and if there is a thought that if you can launch them that was a very strong segment for the erstwhile company and in the CG power call that you did post acquisition you had spoken that you will update on the contingent liability of overseas business, I missed the opening remarks, but if you have some remarks here. Thank you.

Vellayan Subbiah: Thanks so much for the questions. What I would request is that here we stay focused on TI questions, after April quarter we may start doing CG calls as well, but otherwise it gets confusing with lot of CG questions coming in here as well, so that would be our preference. So, first to address the TI question, yes, we are entering the electric three-wheeler business. So basically, we are going to start manufacturing and selling electric three wheelers and so that will be around perhaps December to January timeframe. Just a quick response like I said all the CG strategic stuff I would just say you can really move and kind of address more on CG call. I think from a TI perspective just suffice to say that we are more than satisfied with the rate at which we are seeing performance coming back at CG to those early days.

Sujit Jain: Appreciate that. In three wheelers, if you can just elaborate whose technology you are going to deploy is it in-house and the battery sourcing etc?

Vellayan Subbiah: So obviously we would not be discussing component level., The technology is a combination of in-house plus we partnered with the Korean firm on the design.

Sujit Jain: Okay and one quick question is on the cycles business, the opportunity that is there overseas in fitness bikes which are high-end bikes, anything that we are doing to tap into that.

Paul: I head bicycle business, what we do is we are very much on exports, this year almost will be like four times the volumes of last year in export and we are taking a very aggressive approach for the next four years on selective market, on medium to high end bikes and we believe that will form a very big cornerstone of our cycles in terms of driving the topline growth as well as the bottomline growth and we are actually at the back end pretty much on facilities that will help us towards growth.

Sujit Jain: Thank you. Good luck.

Moderator: Thank you. The next question is from the line of Akshay Bhor from Premji Invest. Please go ahead.

Akshay Bhor: My first question is regarding your role in some of the other group entities, what is that mean for your engagement and tenure and involvement, can you just give us some color on that?

Vellayan Subbiah: Thanks. Good question and I think it has come up in different ways in the past calls as well and I think our perspective remains the same. I have always said even prior to Mr. Murugappan’s retirement last November, that there will be a slightly expanded kind of role that I will play and so I think you are referring to kind of the role in Chola as well, so basically both the teams, that I work for extended periods of time, and so yes I will be providing supervisory oversight there as well. I do not see that kind of taking away from the role at TI and obviously with all three companies over time we will look at succession planning, but my role in TI will continue as I have always said for the foreseeable future.

Akshay Bhor: Sounds good and just a clarification on the electric three-wheeler vehicle on opportunity side, would you be like competing against some of your customers in their existing businesses and does that like how does that like balance play out well?

Vellayan Subbiah: Honestly you see it is an environment where we do not see kind of too much against any of our existing customers especially not in the businesses that they are in, we do not supply too much into the three-wheeler space today.

Akshay Bhor: Got it. Thank you.

Moderator: Thank you. The next question is from the line of Susmit Patodia from Motilal Oswal AMC. Please go ahead.

Susmit Patodia: Good morning everyone and congratulations on a phenomenon quarter. It is quite commendable that you have negative working capital. I think it is quite a big achievement. First question, if you could give us some update on the lens venture?

Vellayan Subbiah: Thanks, and hope you were doing well. The lens venture like we told you basically got slowed down because we are using all Korean equipment and the guys who have to install the equipment basically had a challenge because they have not been able to come here during COVID, so our sense is now that we will have somebody coming in this month. So we are basically producing in multiple operations except for the coating of the lenses themselves, but we are hoping that by next month we will have coating in place as well in which case I think very shortly after that we get to the capacity of the existing facility which is a half a million lenses a month so my sense is that we should be able to do that towards the end of April, May, June quarters and then basically if we do that and are able to maintain quality then we will start thinking about an expansion plan there, but basically like I said the only delay on that has been because the Korean equipment manufacturers were not able to come during this COVID period.

Susmit Patodia: So Q2 FY2022 should be a quarter of full ramp up and things go well then, the next steps in that?

Vellayan Subbiah: Yes, that is right.

Susmit Patodia: Okay and second thing, you are now embarking on this three-wheeler project and you have the lens to ramp up and you have CG Power so is there enough on the plate or there is more space on the plate to do something?

Vellayan Subbiah: I think we have always articulated kind of a path right Susmit, path has been like TI-1, TI-2, TI-3, where lens and three wheelers are part of the TI-2 and the things we have always said is that honestly kind of none of this stuff is on my plate actually right, it is all distributed in multiple plates, electric three wheelers is in KK Paul's plate, the lens business is on K R Srinivasan's plate and NS is running CG. So a lot of it is more from a bandwidth perspective, I think if we do not enhance capacity, we also need to show that we can grow and it is constantly a question of how much capacity we can enhance as a company and so a lot of what we are talking about internally from a talent perspective as well as how we build organizational capacity. I think that is where a large portion of our effort is focused, so honestly we have already articulated that both TI-2 and TI-3 have to be firing along with the TI-1 and hopefully over the next couple of years you can see that coming into reality and we can deliver numbers from those two as well. So that is really our intent. It does not mean obviously TI-3 is kind of Lean approach, so the one good thing is that once TI-1, when we can get leverage down in both companies, it is an approach that we are taking, it is basically not kind of just a one-off acquisition. We have to keep on acquiring over time but we would not do it and put too much stress on the balance sheet of the company and that is something we are very particular about. So, we do not want stress on our balance sheet and I think that this is a direction that we will continue.

Susmit Patodia: Just to clarify what would be the timelines of three-wheeler business, when would be the first prototype?

Vellayan Subbiah: You mean electric three wheelers?

Susmit Patodia: Yes.

Vellayan Subbiah: Now we already have working prototypes and like I said we have been working with the Korean design firm on this.

Susmit Patodia: Correct.

Vellayan Subbiah: Plan to go to market in the January timeframe.

Susmit Patodia: And last question what is the net debt at books of TI?

Mahendra Kumar: End of December it was about Rs.60 Crores.

Susmit Patodia: Rs.60 Crores?

Mahendra Kumar: Yes.

Susmit Patodia: Okay, thank you and all the best and you have a great year ahead. Thank you very much.

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

Abhishek Ghosh: Thanks for the opportunity. Just couple of questions, how should one look at the gross margin in the current quarter given sharp increase in commodity prices, is there an impact of that in the numbers?

Mahendra Kumar: If you are referring to the commodity prices mainly the steel price increase, it will start reflecting from Q4 onwards and there will be some kind of a time lag in recovering it but during Q3 there was no significant impact because of the commodity price increase .

Abhishek Ghosh: Okay, Q4 we will see impact of RM we will have to negotiate with customers to kind of get that thing is that the way to do that.

Mahendra Kumar: Correct. We have always been able to recover it, there could be some time lag but we should be able to manage.

Abhishek Ghosh: Okay, great and in the metal form division, is there also an impact of export being a little weaker or in the other segments because of container availability and other things?

K R Srinivasan: The exports have been slightly lower compared to last year in the industrial chain unit of course because of the overall global scenario due to COVID and there are some challenges in getting the containers also that is true, but the real issue in metal form is the slowdown in railways due to the railway coach factory have not ramped up their production which is likely to get corrected in the coming quarters.

Abhishek Ghosh: If you also get clarity about the development and the truck body part of the business and the overall scrappage coming through how should one look at that part of the business?

Vellayan Subbiah: I think obviously last year has not been great for overall CV space and as a result truck body also not grown much, so this coming year some of these businesses, will take a little while to pickup and we do not expect them to contribute to numbers in early days, but coming year we do see that we should be able to expand our business and this probably give you some estimates and numbers at the end of the year.

Abhishek Ghosh: Okay and just one last question from my side, you are at just a barely with any net debt now most part of the CG cash outflow is already gone and you are generating close to Rs.100 Crores of cash every quarter, so how should one look at balance sheet more from a two year, three year perspective, from that perspective you can just give us a broad outlook?

Vellayan Subbiah: Abhi, how can one looks from managing?

Abhishek Ghosh: Where I am coming from, the one part of the cash outflow to CG Power has already happened despite that you barely have any net debt now and you are also generating Rs.100 Crores kind of a cash flow every quarter now, so Rs.200 Crores goes into three wheeler, but that is just about two quarters of cash flow, so there will be a significant amount of cash flow generation over the next year and CG Power will also start to throw cash flows so how should one look at it? Are you already kind of evaluating or will you wait for some time to considerate the CG Power thing and then probably look at it how should one look at it in this segment?

Vellayan Subbiah: Like we said right overall the thing is in our consol books we do not want too much leverage right now, what you have to look at again that this is a process and we are also learning. When we look at companies, like lot of guys who just do this, how they do it well, basically you need to it like investing business. We need to create a continuous pipeline, but timing could move on one quarter or two quarters, but if your question is, are we evaluating, we are always evaluating right, what I want to say explicitly is, we have said this before, we would not take too much debt because we do not want to have too much debt on our consolidated balance sheet. We would not do transactions that basically leverages us up too much and honestly to answer your question directly we are nowhere close to looking at any acquisition right now in any level of detail. As we said that, first what we wanted was for CG to fully consummate till we get very comfortable with CG and we get the debts down there, we are not going to make another acquisition.

Abhishek Ghosh: Okay so that is helpful.

Mahendra Kumar: CG free cash flow will have to be used for paying CG debt anyway because they have debt on their balance sheet.

Abhishek Ghosh: So I think the relevant number to then look at is the consol debt and not the standalone net debt because you want group's overall net debt to be at manageable levels and then only look forward for futures, that is the way to probably look at it, is that correct?

Vellayan Subbiah: That is a good way to look at it.,

Abhishek Ghosh: Thank you so much and wish you all the best.

Moderator: Thank you. The next question is from the line of Ashutosh Tiwari from Equitas. Please go ahead.

Ashutosh Tiwari: Congrats on strong set of numbers. I have a question on engineering division, we have seen a very sharp increase in sales Y-o-Y, so is it driven by pickup in CV and construction equipment that we saw in the last quarter and even going ahead I think these sectors are expected to do further results, so can you expect this topline that we did in this quarter on these side, we can see some build up from here as well?

Vellayan Subbiah: Mukesh, you want to answer that.

Mukesh Ahuja: Yes, your observation is right especially during this quarter all the three segments that our Engineering business is in, automobile industry, construction industry as well as the exports, all the three segments has done pretty well and we hope that we are going to go forward. We will be doing well year-on-year, the base is already corrected a lot in this year so there is only a head room for growth available going forward.

Ashutosh Tiwari: Okay so my question is that can we say even if we did in this quarter, can we built up from there as well because I think CV has obviously been higher than what the industry volume was in last quarter and probably construction equipment also can pick up from here so can you assume that this base is probably now remaining there and probably built up from that?

Mukesh Ahuja: CV industry is expected to do well because government is also pumping lot of money on the construction industry and like we rightly said base is corrected too much already so there is only going to be growth going forward and there should be a bullish growth going forward that is what is our estimate.

Mahendra Kumar: Do not take it as forward looking guidance.

Ashutosh Tiwari: Secondly, on this we are developing products on engineering side, any update on that from what time we expect that to come?

Mukesh Ahuja: So those product developments already is going as per our plan, we have already submitted the samples for new project what we are running and it is expected to get approved by Q1 or Q2 and beyond that our growth in the particularly new segment where we are investing, we will start clocking for Q2 and Q3.

Ashutosh Tiwari: Q3 second half may be you will see some benefit of that coming soon?

Mukesh Ahuja: Yes.

Ashutosh Tiwari: And then on this lastly the margin part, I think margins have come down a bit on a quarter-on-quarter, is it because of the commodity pressure that we saw in this quarter or something mixed change is the reason?

Mukesh Ahuja: Like Mahendra already explained, this quarter there is not much of impact because commodity prices have started coping up from Q4 basically very high, Q3 whatever impact was there which is already recovered and we could see a time lag in the Q4 but ultimately will get recovered fully that is what the arrangement we have with our customers.

Ashutosh Tiwari: So my question was let us say Q2 to Q3 this prices growth we have seen margin competition in the heating division, so is that is the mix, change in mix?

Mukesh Ahuja: Couple of things, one is mix and the second one is, quarter-to-quarter it is difficult to compare in this business, because there will always be some lead or lag in terms of price recovery so that may not be the right way to compare.

Ashutosh Tiwari: Thanks a lot Sir and all the best.

Moderator: Thank you. The next question is from the line of Aditya Bagul from Axis Capital. Please go ahead.

Aditya Bagul: Congratulations on a great, great set of numbers. Sir my question is more in terms of our long-term outcomes right over the last two years you have sort of check marked our ROC, check marked our cash conversions and PBT margins, coming to the fourth point which is revenue growth, how do you see that as a trajectory you earlier highlighted that 8% to 10% would be sustainable sort of a growth momentum,? Have we seen a step up there in this quarter and is this the beginning of a higher growth trajectory?

Vellayan Subbiah: Thanks for your question. Again revenue growth depends on what are you looking at standalone or consol right. Now basically the basic challenge in India is it is more driven by channel, another challenge like with the CG acquisition is that it is basically it ends up being a structured entity. If you look at it the way we have articulated it in TI-1, TI-2 and TI-3, so TI-3 like CG we are using free cash flow from the company to go and buy another entity, so unless that growth is seen as part of our overall entities growth, it bring the different lens to how we look at or evaluate the company's growth, so that is the first thing right. So you guys are going to think of how are you going to solve for that, you can basically take our ownership interest in CG however you want to think about it, but I think from an analytic perspective you need to think of how you are going to solve for that right, because clearly if you are going to take cash flow from the main entity and use it for acquisition, we need to think if those acquisitions end up being standalone entities, how that kind of drives into the growth right. The growth drivers from like we said we have three engines of growth, the grows within TI-1 itself which is the organic businesses right and that can range from 6% to 8% over the cycle. Right now, obviously we are seeing more growth in that for a couple of reasons right, we have base effects also there because of really bad first quarter this year. So you are seeing some of that play in and the growth will sustain into next year and then basically like you said over the cycle we see TI-1 growth 6% to 8%, now TI-2 has not started kicking in yet, but believe the next year is that TI-3 will kick in with CG numbers, but how you choose to add that to your model I think it is something that you have to drive right it depends on how you would do it.

Aditya Bagul: My question was more to do with TI-1 just wanted to understand you have seen the robust growth in cycles, athleisure has been a key focus area during the last 10 months and even within the engineering segment specifically for TI-1, are we seeing a step up?

Vellayan Subbiah: It is a step up but we are also going to realize that TI-1 is a bit more cyclical so I do not want to kind of move away from the thought that over the long term putting too much more than 8% to 10% pressure on TI-1 I do not think is the right way to look at it, TI-2 has to kick in, TI-2 will be part of TI standalone but it has to kick in which is where the electric three wheelers come in, where lens comes in and those have not kicked in yet.

Aditya Bagul: Understood sir, my second question is again trying to understand you have talked extensively about Japanese influencers driven TQM and productivity management where are we in the journey there and how do you see the next two years or three years?

Vellayan Subbiah: I think it was very, very early, we have not even gone to kindergarten I think again we have been trying to work with Japan, unfortunately everything has got shutdown because they cannot travel here right now and so I think we are just waiting. The more we try and understand that it is just like an ocean that we have to basically drink from and so there is a lot to learn in that space and I just think it is highly exciting in terms of the prospect of what that can do for TI but I would just say that we are absolutely in our infancy in that area.

Aditya Bagul: That is very encouraging to know. Thank you Sir and best of luck for the quarters to come.

Moderator: Thank you. The next question is from the line of Vimal Gohil from Union AMC. Please go ahead.

Vimal Gohil: Thank you for the opportunity and congratulations to Vellayan Sir and team for putting up this splendid performance. My question is firstly on TI standalone and just following up on Aditya's question. My question is on margins actually, the company is way past you know the 10% PBT that you had guided for, what would be the outlook there going forward clearly despite the revenue growth not supporting in FY2020 we still have achieved and over achieved that number on PBT front that is question one. The second question is on the lens business I think what you mentioned on the volumes that you are targeting or the production that you are targeting is 0.5 million a month, if I have not got it wrong.

Vellayan Subbiah: Right.

Vimal Gohil: And the third question that would be the negative working capital is it sustainable? I mean the fact is driving it, will it sustain on a negative trajectory going ahead as well and lastly we just comment on the metal forms business excluding the railways how it has grown? Thank you.

Vellayan Subbiah: You asked me so many questions I have a very small RAM, I cannot remember all. PBT, are you saying I am expanding our target? We do believe that the PBT will expand over the next few years, we do not want particularly to set a target right now, but we do believe that we will be able to expand PBT. Okay your second question was on negative working capital. Honestly part of the challenge right now is that even if you want to buy steel you cannot buy steel like in the sense there is not enough available to go around right and so that is also basically driving down our working capital levels. I think we still have to determine what will be kind of a stable level whether it will settle like kind of close to zero or a number slightly above that I do not think we are going to go back Rs.300 Crores, Rs.400 Crores levels we used to be at, but it may settle a number slightly above this. This depends something into our model or something. The last question was MFPD is hurt by railways and to that I have already answered.

Vimal Gohil: So, excluding the railways how is the metal performance done?

Mahendra Kumar: Like what I mentioned it is in the range of 10% to 30% and varies from segment to segment.

Vimal Gohil: Thank you so much Sir and we are looking forward to this a separate CG call maybe Q4 onwards. Thank you so much.

Moderator: Thank you. The next question from the line of Preeti R S from UTI Mutual Fund. Please go ahead.

Preeti R S: Good morning Sir. Congratulations to you and your team on this remarkable performance. Sorry this is repetitive, my question is on the **EV** business, if you could provide us a bit of background on how we doing on this business, what is the assessment of the current market size and potential, at this point of time we understand the segment is dominated by lead asset battery driven electric so and it is highly fragmented and also if you can tell our strengths and what is our advantage in these business?

Paul: Just to answer this question in two parts. The first part is we are basically updating on how the EV space will play out in India, so there are number of factors like what the government is doing, the EV, post COVID optimism is with what we started this endeavor one year, two year, year-and-a half-that and we looked at design, we have looked at the value proposition, we have looked at buyers, we have looked at total cost of ownership and how much we can share with the current wave and how we will get to adopt EV. We must also remember that there is a lot of environmental factors like dropping prices of battery etc., that will happen, the softening that will happen, easier for somebody to switch to EV that is how we zeroed on this and then we are in bicycle business so we raised our vision to say eco-friendly mobility and the vision got enlarged from the cycling to mobility and the eco friendly, so there is a fit of living into our vision that is we have chosen. Coming to specifics, broadly at this stage, we have done a lot of reliability tests, we have done design tests, we had consultation with our design partners and we are very hopeful that we deliver something good for the market and for our customers and thereby win over a period of time, does this answer.

Preeti R S: Yes Sir, and if you could highlight any synergies with the cycle business in terms of manufacturing or distribution?

Vellayan Subbiah: The synergy question has come up multiple point of times in the past and one of the things we said is like there is a reason why TI is kind of taking this approach right which is we want to move away if we only want to say synergy then we are going to be an auto component supplier our entire life right and honestly we do not want to be there. We want to reduce our dependence on just auto because being an auto component supplier, we feel two challenges with it. One is, it is very capital intensive and the second is very cyclical and cyclicality does not create an ability to generate consistent and constant cash flows and we do not see that as good for our company that there has to be able to deliver consistent growth over time right, so hence the same question was asked in the CG what we see as common principles right, so I think Adithya asked the question on the Japanese, Japanese lean principles, Japanese production systems and TQM, we see as applicable across businesses and we believe that is what creates leading manufacturing businesses. Our interest and intent is to basically create leading manufacturing business in the country using those principles as a way to compete right, using TQM and we believe that those principles are applicable across various industries.

Preeti R S: Good luck to you.

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

Anupam Gupta: Vellayan Sir, two questions. Firstly on the cycle business, you said that there is a significant emphasis on exports, so just to what sort of current revenue is coming from export in terms of between the normal India business how fast is that growing and can that sustain and exports you mentioned will get twice, will get doubled in this year but can you give some picture on the domestic as well and export it separately?

Paul: In the bicycle business currently, the revenues coming in from exports is about 5% of the turnover. Moving forward across the next few years the way we have planned it out that it is contributing between 20% and 25% so far. We have to first to compete in the market and there are a lot of favorable headwinds that are happening in this business.

Anupam Gupta: Okay and the domestic business how fast is that growing is that pent up demand or do you see that sustaining?

Paul: Domestic demand this year has been very good in terms of this the market if you take post opening of the COVID the market has grown between 20% and 25% but if you look at a historical perspective of the domestic market it has been on that trend so obviously we will have to look at to get the growth engine export this is a big factor for us but having said that to earn the right to export I think we have to build our competitiveness and velocity and compete others and that is what Mr. Vellayan was explaining the initiatives that we are taking up with the Japanese etc., utilizing those principles that help us to be very competitive in the manufacturing space and with that then we have all the markets that we will be able to compete. So far that are looking at this export scenario, because we mostly have strong position in the domestic market as we know whether it is a tube business, whether it is cycle business we are number two.

Anupam Gupta: The second question for just relating to CG Power is not necessarily about how it is doing, they have given a lot of reduction in the contingent liability so the question for you is do you see any further investment from TI going into CG power for meeting any cash shortfalls for contingent liability, do you see that happening at all?

Vellayan Subbiah: We do not believe that there will be a need at this stage.

Anupam Gupta: Okay so CG should be able to handle all the cash flows internally basically.

Vellayan Subbiah: Yes.

Anupam Gupta: Thank you.

Moderator: Thank you. The next question is from the line of Kashyap Pujara an Individual Investor. Please go ahead.

Kashyap Pujara: Mr. Vellayan and team, congratulations for a great set of numbers.

Vellayan Subbiah: Thanks Kashyap and very pleased to see you at this end of the line actually I think you all in the conference call I just want to say a big thank you to Kashyap. Kashyap has been hosting our conference call from Axis for the last 10 years I believe. We are actually meeting Kashyap from the other side, so Kashyap congratulations.

Kashyap Pujara: Thanks. This was one of the first companies we covered when I started covering and I think it has been a great journey because over time TI has gone up 10x and apart from that there has been Chola financial holdings and Chola that have come out so it has been a great journey over that timeframe and sure to look forward to interacting with you more as I join in my new engagement next week, so look forward and congrats for a great set of numbers. Mr. Vellayan I just had one question I think everything has been kind of spoken about it is very encouraging to see Q3 PBT at Rs.145 Crores and in fact of above Rs.100 Crores actually we are annualized run rate is any which way now Rs.600 Crores and Rs.400 Crores plus and we are at 11% margin, so I think I remember discussing in calls prior with you and you said that over a mid term maybe a three to four year horizon aspirationally you wanted to get to that 15% mark so I hope that continues and there are no changes to that plan?

Vellayan Subbiah: Broadly like I said a lot of this is driven on operating disciplines and like I said the fact that we have not been able to get some of the Japanese in here and there is a lot for us to learn from them and we still have to learn a lot more so our belief is that we are able to apply those principles and maintain these high levels of disciplines that are needed, we will be able to get to those numbers right I mean so that continues to be our belief.

Kashyap Pujara: Great, thank you Sir and wish you guys all the best and look forward to being in touch with you.

Moderator: Thank you. The next question is from the line of Rohit Ohri from Progressive Shares. Please go ahead.

Rohit Ohri: Couple of questions for Shanthi just wanted an update last time when we spoke we were talking about our capex plan that is the growth capacity of Rs.15 Crores, Rs.20 Crores for Shanthi, so any developments or how much of the intended amount has been spent for capex?

Mahendra Kumar: There is nothing significant because of this COVID impact and all, a lot of deferral has happened so now the capex will now happen between Q4 and may be Q3 of next year to spread over the next four quarters.

Rohit Ohri: All right, you were at the evaluation stage for some robotic processing for Shanthi so any development in that case?

Vellayan Subbiah: Very, very earlier, we do not think we have discussed this, are you talking about IoT, something about robotic figures, I do not think we ever discussed it publicly and it is very, very early.

Rohit Ohri: Okay and in terms of the pending order book which Shanthi is having which gives the visibility of around 9 to 10 months from today. In next two years or so do you think Shanthi will be able to do EBITDA margins of 20% or so?

Vellayan Subbiah: Again we do not give forward looking guidance especially on Shanthi, I do not think so.

Rohit Ohri: Okay, last question Shanthi has been accumulating quite a lot of cash which is in the form of FD I believe, so are you building the watches for Shanthi then?

Vellayan Subbiah: Again right, Shanthi had accumulated cash in the past and had done buy back at that point, so we continue to see what to do with the cash, whether to spend it on that company or pull back to parent, something which we will continue to evaluate over time.

Rohit Ohri: So, it is not that you will be going for incremental dividends and reward the shareholders?

Vellayan Subbiah: Please do not draw me into this.

Rohit Ohri: Shanthi has done quite a lot of from around Rs.30 Crores to Rs.45 Crores odd in last six months that is why I am asking that is what the Shanthi intend to do with the money that is lying?

Vellayan Subbiah: We will continue to evaluate at a Shanthi's perspective like all independent public companies do. So, we continue to evaluate at a Shanthi level like cash kind of use it or something else or to bring some of that to the parent.

Rohit Ohri: Okay, thanks a lot.

Moderator: Thank you. The next question is from the line of Susmit Patodia from Motilal Oswal AMC. Please go ahead.

Susmit Patodia: This is the question for Mr. Paul actually. Mr. Paul if you could give us like three, four year vision excluding the EV can this business be like Rs.1500 Crores revenue business nearly double digit margin, is that possible?

Paul: Yes.

Vellayan Subbiah: You are talking about EV or cycle I could not hear you.

Susmit Patodia: Cycles.

Paul: It is difficult to give again a forward looking prediction, but all I can say that we are pretty up beat in terms of the future looking at India plus you know some countries in the globe with the favorable movement combined together. We believe that we will be in a position to deliver and sustain our performance is what I can say and also with the introduction of our approach towards some of these Japanese philosophies should help us improve the velocity in which we do things and the way we manage the business. The sustainability that we can get out of it and this combined formula coupled with talent management, I think what Mr. Vellayan alluded to will help us to get results over the future, that is what we are working towards.

Susmit Patodia: Thank you.

Moderator: Thank you. The next question is from the line of Raunak Vora an Individual Investor. Please go ahead.

Raunak Vora: Can you just explain the terms that you were using in the call earlier TI-1, TI-2, TI-3 I am just new to the company?

Vellayan Subbiah: This is there if you are going to our transcript, we have been using these for long time, TI-1 refers to the four existing divisions in the company, TI-2 refers to what we call more venture capital lead approach to growth like our expansion into lenses or the electric three wheeler business and TI-3 refers to more what I would call an operational theme on growth through acquisition and CG is an example.

Moderator: Thank you. The next question is from the line of Vipul Shah from Sumangal Investments. Please go ahead.

Vipul Shah: Congratulations for a great set of numbers. My question relates to TI-2 so any progress on the TMT bar business which I think you discussed a few quarters back on our call?

Vellayan Subbiah: Like I said with TI-2 it is tough to kind of keep asking for progress every quarter and delivering and that like with COVID quite a few like the construction business, the CV business all of those businesses got hit quite badly with some of the smaller businesses we do not see kind of discussing progress on them just like I think as long as if we are planning to kind of get out of our business we let you know, but otherwise they have to grow organically to a certain scale before it becomes relevant to be discussing on these calls.

Vipul Shah: And lastly on lens business what will be our capex Sir?

Vellayan Subbiah: We will not determine the capex number, when we do obviously we do it through the board and we will discuss it publicly as soon as we have a number.

Vipul Shah: Okay Sir. Thank you very much and all the best for the future.

Moderator: Thank you. As there are no further questions from the participants I now hand the conference over to the management for closing comments.

Anupam Gupta: Mr. Vellayan, if you have any closing comments?

Vellayan Subbiah: Like we said I think we continue to be optimistic going forward, the biggest challenge is continued to be in supply on the raw material side, a few things is holding up and so our outlook continues we just have to see how demand plays out. Thanks everybody for joining us.

Anupam Gupta: Thanks a lot Sir for the opportunity and Margaret we can close the call now.

Moderator: Thank you. On behalf of IIFL Capital Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.