

"Tube Investments of India Limited Q4 FY'20 Results Conference Call"

May 29, 2020







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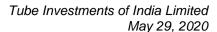
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MODERATOR: MR. KASHYAP PUJARA – AXIS CAPITAL





Moderator:

Ladies and gentlemen, good day and welcome to the Tube Investments Q4 FY'20 Results Conference Call hosted by Axis Capital. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. I now hand the conference over to Mr. Kashyap Pujara from Axis Capital. Thank you and over to you, Kashyap.

Kashyap Pujara:

Thanks. Hi, everyone. Good morning to all of you and thank you so much for standing by. It is a great pleasure to have with us the entire management of Tube Investments. For the first time I would say that all the relevant top members of Tube Investments are present on this call. And from the management side, we have Mr. Vellayan Subbiah who is Managing Director; we have Mr. Mukesh Ahuja who heads the Tube business; we have Mr. Srinivasan who heads the Metal Forming business; we have Mr. Paul who heads the Cycle business; and we have Mr. Mahendra Kumar who is the CFO, and we also have Mr. Ramanujam and Ram Shankar who are part of the Finance team. So over to you, Mr. Vellayan and many congrats for a decent set of numbers in otherwise challenging environment in Q4.

Vellayan Subbiah:

Thanks, Kashyap and good morning, everybody. Basically I just want to give you a quick run through on Q4 and the year performance and then obviously I would be happy to turn it over for Q&A.

Basically, as you know, we had declared an interim dividend of Rs.3.50 per share in February 2020, and that was paid to the shareholders in March.

Consequent to the COVID pandemic and lockdown, the operations across various locations in the country had to be shut down from March 23rd onwards and that has continued till the month of April. With the easing of lockdown and curfew, the company from May 2020 has resumed operations in a partial manner across pretty much all of its locations with the exception of two.

The Highlights for the Fourth Quarter and for the Year: Basically, revenue for the fourth quarter was Rs.935 crores compared to Rs.1,224 crores in Q4 of last year and revenue for the year was Rs.4,276 crores which was lower by 19% over last year. The PBT before exceptional items... and we will talk about the exceptional items in a bit was Rs.108 crores which is a growth of 26% over Q4 last year and PBT for the year was at Rs.421 crores which is a growth of 13% over last year. The ROCE is at 23% compared to 21% and free cash flow is at Rs.320 crores with 97% of PAT. Strong free cash flow resulted in our net debt reduction of Rs.342 crores, so from Rs.491 crores in debt we are down to Rs.149 crores at the end of March. So I would definitely say that that the free cash flow and kind of strengthening our balance sheet was fairly a timely move for us given kind of what we are faced with in the current environment. We can talk about that more future looking stuff as we go ahead.



Just to let you know on exceptional items, the last quarter, we kind of negotiated and kind of happened, so we were already doing it without COVID, the company implemented voluntary retirement scheme and that cost us Rs.22 crores and that same amount is considered as an exceptional item in PBT.

I just go through "Each of the Businesses quickly." For Engineering, revenue for the quarter was at Rs.545 crores compared with Rs.659 crores in the corresponding quarter previous year. PBIT was at Rs.75 crores for the quarter as against Rs.65 crores in the corresponding quarter which is a growth of 16%.

Revenue for the full year for Engineering was Rs.2,258 crores as compared to Rs.2,896 crores and PBT at Rs.264 crores as against Rs.254 crores in the previous year, growth of 4%. And ROCE for the division improved to 41% as against 37% in the previous year.

So Mukesh is here who heads that division and I would definitely congratulate him and his team for pulling off an incredible story in terms of efficiency, working capital improvement and profit enhancement in a very tough market.

The second business is "Cycle and Accessories." The division registered revenues of Rs.129 crores compared to Rs.250 crores in the corresponding quarter previous year. There is a huge drop and I may explain that drop is predominantly because of our exit from the institutional sales, part of the business which we have chosen not to participate in this financial year that just got done.

PBIT for the business though was Rs.6 crores compared to the loss before interest and tax of Rs.7 crores in the corresponding quarter previous year.

And I will give you the "Annual Results" as well. Revenue for the full year was Rs.781 crores versus Rs.1238 crores, again the drop is predominantly due to the exit from the institutional sales business and PBIT improved to Rs.26 crores as against Rs.11 crores in the previous year. So though we have had a significant drop in revenue, our PBIT actually has gone up. The ROCE for the division has improved to 17% compared to 6% of the previous year.

Now that improvement in PBIT will fully attribute to the strong work that Kalyan and his team have done in terms of significantly turning around Cycles business. I would say it has been a full scale turnaround, increases in operational efficiency, significant work on the ground in terms of improving the sales infrastructure, improving our relationships with the distribution channels, modifying kind of the structure of distribution we use in itself, and also looking at significant cost reductions where necessary especially in the areas of sourcing and logistics and the warehouse infrastructure. They have totally rehauled the warehouse infrastructure across the country in a much leaner format and all of those actions combined have resulted in this significant profit enhancement. If it were not for COVID, we were fairly convinced that we



would deliver a much stronger year this year than last year, but we are still continuing on all of the activities that would strengthen the Cycles business as well.

In terms of Metal Form products, revenue for the quarter was at Rs.301 crores compared to Rs.358 crores in the corresponding quarter this year. PBIT for the quarter was Rs.16 crores as against Rs.31 crores in the corresponding quarter last year. And revenue for the full year was at Rs.1,399 crores as against Rs.1,360 crores in the previous year. PBIT for the year remain flat at Rs.123 crores and ROCE for the division was at 26% versus 27% in the previous year.

Consolidated results on an annual basis, revenue was at Rs.4,750 crores versus Rs.5,773 crores and the PAT was Rs.313 crores as against Rs.251 crores in the previous year.

Shanthi Gears basically had a flat revenue year overall at Rs.242 crores and PBT there was at Rs.33 crores versus Rs.42 crores in the previous year.

So that is a quick overview on our previous quarter and the year and the team and I would be happy to take any questions that the audience has today. Thanks again everybody for joining us.

Moderator:

Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Shyam Sundar Sriram from Sundaram Mutual Fund. Please go ahead.

Shyam S Sriram:

My question is firstly on the revenue side. From this quarter perspective, on the Metal Forming division, we have seen a decline on a quarter-on-quarter basis, whereas Engineering has done better there sequentially... while a sequential may not be a good barometer, but what has impacted Metal Forming during this quarter, even the EBIT margin for Metal Forming has come off during the quarter, was it because anything in the aftermarket side or any color you can give on that front?

Vellayan Subbiah:

Aftermarket actually has been stronger, but let me ask K.R. Srinivasan who has joined us in the call to give us kind of quick perspective. He runs that business.

K.R. Srinivasan:

This quarter the decline was in the OEM business only. The overall auto market slowdown really impacted the business. That was the main reason for the dip in the quarter. Otherwise, strong performance is there in aftermarket and the non-auto sector parts of the Metal Forming business for the full year.

Shyam S Sriram:

Non-auto you mean railways...

K.R. Srinivasan:

Railways and industrial chains so those kinds of product segments have done well.



Shyam S Sriram:

I am just trying to understand Engineering division has improved sequentially in terms of revenue momentum, I mean there also is a good chunk of auto OE dependence whereas metal forming has seen the other way. So just trying to understand this gap in the performances.

Vellayan Subbiah:

There are different OEs and there are different segments in auto, for example, one is much more dependent on two wheelers and CVs, one is MFED for example has a pretty strong dependence in one of its businesses on four wheeler passenger cars. So it is basically due to sectorial differences.

Shvam S Sriram:

Metal for the Door Forming segment?

Vellayan Subbiah:

Exactly right. But on the other like tubular front folks are much more dependent on two wheelers, right.

Shyam S Sriram:

And from an outlook perspective on exports and aftermarket, auto chains and industrial chains as well as the railways business, if you can give some color on that?

Vellayan Subbiah:

So I think first off obviously kind of given where we are at and we can have a broader discussion on this. We just do not feel like we are in any position to give any guidance of any forward-looking commentary at this stage... and honestly I do not think anybody has the answer. KRS, you can comment more on it. We are kind of encouraged by what we have seen. But just honestly, Shyam, it is too early to comment on anything. So do we think that aftermarket will pick up? Nobody knows, there has been kind of so much, we do not know whether the initial buying is just kind of pent up demand. It is just kind of too early to speculate on anything. Even exports, some orders have started coming in. But can we make any judgment now on kind of what the year is going to look like. I definitely say the answer to that question is 'no'. So broadly to give the entire audience perspective on that I would say that we just do not feel very comfortable at this stage to comment on any particular market or how the year in particular is going to shape up.

Shyam S Sriram:

From a gross margin perspective, we have continuously been improving with alternate suppliers coming into foray and the mix also getting better. So going forward are we seeing further benefits that may flow through here or is it largely done for now? And mix a major reason for the gross margin improvement if we see for this quarter for example compared to all the three prior quarters. What is the role of mix in the gross margin improvement? Along with that, we have undertaken VRS exercise. So do we expect employee cost to start softening from here on going forward, any quantification if you can give on that front?

Vellayan Subbiah:

So to answer your question on VRS, I think the answer there is fairly simple, the math you can use is if you incur a cost of X in IRS, we usually determine a payback of approximately four years which means that cost will decrease by X by four on an annual basis. That is the first thing. The second question you asked "is that margin improvement story done" and there I think we have alluded to it on previous calls as well. We definitely do not think the margin



improvement story is done, because we do see opportunity for margin improvement. Like I said whichever area you take whether it is quality, whether it is mix, whether it is sourcing, whether it is logistics and transportation, we do not believe that we are done on that story at all. I would say that we are about halfway there on that story. Again, I do not want to give guidance on timing because honestly guys, it is very difficult based on kind of on fixed costs and ratios to predict what this year is going to look like. But my point is that the margin improvement story is not done. And overall if we take kind of where we are on that journey, I would say we are about 50% of the way.

Shyam S Sriram:

Post-COVID all the supply chain issues are now resolved at least from our perspective, our vendors, from steel procurement or imports perspective?

Vellayan Subbiah:

There will be issues, but it is not the case in the market right now and everything is kind of already been addressed.

Moderator:

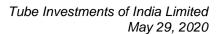
Thank you. The next question is from the line of Susmit Patodia from Motilal Oswal Asset Management. Please go ahead.

Susmit Patodia:

Just a couple of longer-term questions, Vellayan. One is this future leg of growth that you had elucidated to us presently, how do we now think about this... and I am sure unfortunately the project that you had nearly commissioned would have gone into a little bit of a pause as well. So, has there been any change in thinking there or have opportunities actually increased?

Vellayan Subbiah:

I think definitely so to give the broader audience a perspective also, so I would say that this year definitely the way I look at it is kind of just even from a personal time investment perspective, I continue to shift more and more of my time to what we are articulating as TI-2 and TI-3, I think you all are familiar with that nomenclature now. TI-1 is the existing businesses and growth in those businesses and we have a very able team basically driving that between KKP, Mukesh and KRS. TI-2, we had articulated as kind of growth in a more venture capital format where we would start new businesses and we think that four or five of those can become significant businesses for TI over time, six of them likely fail. And TI-3 which is basically acquisitions and potentially we have always said we want to full value acquisitions, but will also help us diversify away from the auto sector and kind of allow us to get new areas of growth for the company. So, Susmit, I would say that program if anything has been reinforced by this environment, that we want to increase our focus on both TI-2 and TI-3 and we are continuing to kind of drive a lot of our energy towards those two. As a matter of fact I definitely think kind of on that side which is TI-3 and the acquisitions, the market is offering up a lot of opportunities right now and will likely do so more as the year progresses. So we continue to be very excited by both of those sides. We had said debt less than net working capital and the good thing is that we are significantly less than net working capital. And I think that will hold us in good stead in an environment like this where we go into it without too much leverage. So even if we need to take some leverage for an acquisition, we would do it with a higher degree of comfort. Obviously, we are going to become cautious in this





environment and we continue to kind of see how things play out. But I just feel that it is better that we are going into with a stronger balance sheet. So, in that way we are kind of blessed by some of the actions we have taken in the past two years. But definitely TI-2 and TI-3 as a strategy are very intact and we really plan on pushing more on those in this environment. Our TI optical, basically we were hoping to get that up and going this quarter, but the good news is that now all the equipment is in, we still actually have some of the Korean folks who we have got the equipment from kind of on the ground there, testing it out and I feel fairly confident that if it is not this quarter, we will definitely get it up in the month of July. And we have already started testing individual pieces of equipment in that plant. So the plant is up and running, but by the time we get to full salable production, in the sense like we have to see how the environment goes because right now we also have issues moving people across the state border from Chennai to the auxiliaries in Andhra Pradesh. So we have challenges moving people across state borders because like you said, people do not seem to want people from Tamil Nadu or Maharashtra. So we will see how that evolves, but we continue to remain bullish about kind of growth for those businesses. So TI-2 and TI-3, that strategy is very much intact.

Susmit Patodia:

And my second question is just on trade receivables. Any dangers that you think there is or Rs.524 crores is pretty safe, nothing to be worried about?

Mahendra Kumar:

So we did the assessment as soon as the COVID situation started unfolding. We were initially having some concerns about the receivables from the dealer community both in cycle's business and also aftermarket business. But after our assessment, we concluded that there is no big threat waiting for us there.

Moderator:

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

Abhishek Ghosh:

Just a couple of things. About a year and a half back, two years back, the original guidance was 15% plus revenue growth and PBT margin of 10%. That was the two elements of P&L that we were looking at. Now obviously because of the external environment, revenue growth was obviously from the entire sector was kind of missing and we also were a part of that. But despite that you have been able to maintain that or you have been able to achieve that 9.8% PBT margin for the entire year. So there is an element of negative operating leverage which is sitting here. Even despite which you could get to that 10% PBT margin. So, I am saying whenever things come back, you think your sources, capacity everything is in place and where can this look like, not to get into numbers, but just your broad thoughts there?

Vellayan Subbiah:

You are right, definitely we see that. I think over the last like I do not know how many quarters we have all been saying whenever things come back I think part of the problem is we do not know, Abhishek, when things are going to come back. In theory, what you are saying is correct in the sense that that is also our belief which is if you have got that, we are not obviously going to increase kind of whole fixed cost structure once it comes back. And as a matter of fact in



this environment, we are only thinking of how we get leaner. So, that is kind of basically what you are saying, definitely is something that we believe. That is why I have always said that I do not think the margin improvement story is over and like kind of goes back to the earlier question where I think we are probably halfway there on margin improvement side. I think that continues. See, basically what you have to think of it is that this is becoming a mindset of the company. I always say the company is kind of operate on mindsets. If you create that mindset that, a) there is more opportunity. Leadership in the company will figure out ways of getting it right. And I think that is what kind of Mukesh and KKP and KRS have demonstrated. So I think if we take what was done with the cycles business, everybody was saying, "Hey, listen, kind of you know not much there in terms of margins." But just in one year despite the fact that we have kind of exited institutional sales and dropped almost like 33% in terms of overall revenue, we have over-doubled the PBIT and the team is doing more and more kind of exciting and innovating stuff. So, I think that is a way you got to look at it. What you are saying is definitely in line with our belief. We think that there is more headroom there and we will continue to kind of push on any driver that is going to help us improve margins over time.

Abhishek Ghosh:

Also, we have raised some NCD. So is there something you just want to create a war chest or...?

Vellayan Subbiah:

It is a standard board approval that we always get saying that in case we need to get a blanket approval. There is nothing. It is just like you are saying to create a war chest in case we need to draw down. We do not want at that stage, we have to go and get an approval. So, we are just getting there.

Abhishek Ghosh:

So all the acquisitions and other things that you were looking at from last six months, one year, they must have only got sweeter now, right, with the current crisis?

Vellayan Subbiah:

I think that is similar to the question Susmit asked. Definitely we are seeing much-much more opportunity coming up on that side. So we continue to kind of look at a couple of transactions that we were looking in the past. See, the thing is that it is almost good that we have not been in a hurry. But I 100% agree with you which is it is getting more attractive now.

Abhishek Ghosh:

Now in this environment what we are seeing is the industries or the companies which are not that well managed, sitting on higher working capital receivables are under a lot of stress. Do you think that can allow you to gain some amount of market share not maybe in cycles, but in the other two divisions you think the industry structure is such that some of the weaker players can just get out and help you gain market share, is that something that you see or is it too early to comment?

Vellayan Subbiah:

Mukesh, do you want to answer that for engineering and then KRS do you have a perspective as well?



Mukesh Ahuja:

From engineering side, we see definitely that is going forward it maybe opportunity because we see our competition sitting relatively on the higher receivables and even higher debt levels. And how they will be able to manage this and whether that is going to give a headroom for maybe gaining shares, definitely, we see there will be opportunity available going forward on that particular account.

K.R. Srinivasan:

Both in two wheelers and four wheelers, where we are directly servicing the OEMs, we definitely see some opportunities are improving in this business in the current perspective.

Moderator:

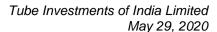
Thank you. The next question is from the line of Jeetu Punjabi from EM Investment. Please go ahead.

Jeetu Punjabi:

Two questions here: One, as you recalibrate what is the other side or what is the new normal of post-COVID world, are there any significant structural changes to your business or to the end demand markets or whatever you think that some part of it is never going to come back and it is dead and some part of it is a brand new opportunity that we need to focus on. So I would love to hear your thoughts on how if that has been thinking on this whether there is structural changes happening at the other side of this six or 12-months from now?

Vellayan Subbiah:

I think that is a great question. We have talked about it kind of a bit internally. I think the broad perspectives we have at this stage is that first off we think it is too early to tell, for example, earlier on we were talking and we said, "Hey, listen, we have a high interest in electric because we think electrification is going to come sooner than some other folks expected in India." Now there is all of this question saying, "Hey, listen, will electrification get slowed down or accelerated by COVID?" And honestly the jury is out and we continue to believe that a) it is coming, right. Now whether it is getting accelerated or slowed down? We do not have a good sense yet. There seem to be so many macro factors; oil prices crashing at the same time, all kinds of stuff happening. So I think that what we notice when we look at our set of businesses is we broadly said this. The thing we have had commentary for a while is that a) Hey, listen, we think electrification is coming. Do we believe that? 100%. We still believe that. Guidance we have been giving for a while is that we want to reduce our dependence on the auto sector. So we want to start moving away from the auto sector with our new businesses and with TI-2 and TI-3. Do we still believe that? Yes, we believe that that is a case. We have to reduce our dependence on the sector, we need to move in to kind of other sectors in the engineering and industrial domain. So broadly I would say that kind of our overall tenets we feel still hold good as far as manufacturing are concerned. "Is things that were there in a pre-COVID world?" The big question is how accelerated are they going to get in the post-COVID world. At least we do not feel like we are the experts who have the answer to that. Do we feel like that fundamental direction is changing? No. Whether it is electrification or whether it is kind of diversification away from auto because these are just prudent things to do for us as a company and we believe that we will continue to do that.





Jeetu Punjabi:

Second one is we are obviously sitting in really uncertain times as far as knowing what is the path to normalization. But having said that if you kind of look out six months or nine months...I would love your best guesstimate on this, do you have a timeline of saying this is when we think we get back to 80% of normal of what we were doing, in the sense, what is the curve going to look like, the question is also if you assume that by December, I am just saying that we are going to be 80% normal, when you work towards it and you make sure that you are there, I am just saying what is your operating assumption, how do you guess this whole thing is going to play out?

Vellayan Subbiah:

Honestly I think I have been asked this question several times before and I have always said like I am a huge believer in the coin flip because it is a most accurate predictive mechanism at this stage in time and I still believe that. Honestly I am not trying to avoid the question, but the way we look at it internally is we do not know when that is. Do we have a perspective? Do we try and form it? Planning, reasons, all of that, maybe. But honestly I do not think we have a good answer. Everybody seems to be kind of cordoning around this idea that by December we should be at 75% to 80%. Honestly, there are so many unknowns in this side. Who knows like how long this thing is going to continue in India? None of us have answers. So, I think in that environment, all we can do is just kind of take a look at it month-by-month. So it is not like there is a trajectory towards 80% because there is nothing that has to be done, right. If we are going to be at 80%, there is nothing that has to be done, right, in a sense like the question is like you know as a group we take a longer term perspective on the people side, so are we going to make any kind of huge this thing. We do not feel like that is warranted yet. But all I am saying is that thought it might be the wrong thing to say, I do not believe that it is an environment where we can predict and act on that prediction because I do not believe that it is predictable.

Jeetu Punjabi:

Just a quick follow-on on that, you can see this now, what do you think will be the two most difficult challenges in the path to normalization?

Vellayan Subbiah:

Definitely what we are seeing right now is this issue or just there are all kinds of problems in kind of getting the supply chain normalized... and by supply chain, I do not mean just kind of raw materials, labor, everything right, every component of supply whether it is raw material. For example, also it has impact on cost now because logistics costs get whacked because you are always doing all of these exceptional things you are going to get what you need into the plant, what you need to the customer, everything is just kind of going a bit out of whack right now. So I think having the best mechanisms right and that is where I think kind of some of the Japanese production system principles are very good in helping deal with some of this, because you tend to be much leaner kind of by adopting those principles and that is again the cycles guys have done some great work on that front. That whole area is definitely going to be one area. The second which is kind of I do not know if you are asking kind of more broader gyan for us in specific. But the broader issue is the demand side; nobody has the answers to that. And we are all looking at indicators that we have never looked before to say like oh, this is



good news, this is bad news, but honestly this is almost like, that is what I told you, managing coin flip is as accurate.

Moderator:

Thank you. The next question is from the line of Kashyap Pujara from Axis Capital. Please go ahead.

Kashyap Pujara:

I just wanted to ask a couple of questions which investors have posted. So the first is regarding our export strategy. I just wanted to check with you that, is it possible that in a year like this where domestic demand is very difficult thing to predict and act on, but is it possible to scale up our exports because that was mainly not towards capturing growth, that was mainly capturing market share, because we were more competitive than others who are supplying to the same customers. So, can exports be a great driver this year which can be explored by us?

Vellayan Subbiah:

Yes, definitely we have a strong focus on it. I am going to let Mukesh talk specifically from the engineering perspective and can tell us what he has been thinking of. I do not know if we have Paul on the line, but if Paul is there perhaps it is early stages for him but from the cycles business as well, he has begun to start thinking about that. So I will turn it over to first Mukesh and then perhaps Paul can kind of chip in as well.

Mukesh Ahuja:

Yeah, regarding this engineering side on exports before even COVID also, that was our focus area to grow our business going forward. But this COVID scenario brings another opportunity. Entire globe has started thinking for alternate supply chain solutions also because dependency on the one country is going to be a challenge. So how that alternates for the various supply chain where maybe as a country as well as a company, I think we have a strong chance for participate in that. We already started working in that direction, we are in touch with our customers as well as we are exploring the new customer base where we were not present in the past and there is a fair amount of work is going in that direction and we are confident we will be able to correct some new accounts and our strategy of earlier participating growth will get accelerated going forward in current scenario.

Kashyap Pujara:

One more question for you, Mr. Vellayan would be, while you mentioned twice on the call that 50% is done as far as cost and you still have a long way ahead. But what investors would like to kind of understand is if you can break down the granularity as to which are the areas where you are comfortable that okay, the cost levers have been kind of pulled and which are the areas where you still feel cost levers are yet pending to be kind of scaled up, if you can just give that, it would be helpful because investors can then focus on some of those KPI?

Vellayan Subbiah:

So in terms of the quality journey, we said it is a five-year journey and we are two years into it. So I believe that if we just kind of linearly extrapolate that is about 40% of the way there. But perhaps you can look at it as 50% done, 50% to go. So that is in terms of quality. What are the metrics that kind of drive from it? One is definitely kind of what are our internal reject rates therefore what will we be able to do with our internal reject rates over time. So I believe that we are halfway there and at least that much to be gotten over the next couple of years. The



second big lever is just on the sourcing front itself, which is basically we think that we have taken some actions on what we can do on the sourcing front, but there is still a lot more we can do there. In a couple of areas, we have got very strong sourcing teams now and they have started looking at kind of just how we begin to play this market. Obviously, again that is going to be a bit structurally dependent something that we have to see what the government does with regards to China. We need to understand how some of that is going to play out. But we definitely continue to see that as an opportunity that has significant legs over time. And then I would say in terms of overall, when you look at other costs, such as logistics cost and all of the supporting supply chain cost, there I would say that maybe we are a bit above 50% done but there is still headroom that we continue to see. And then on the efficiency side, there also I think what COVID is going to do is force everybody to look at what we started doing on the manpower on the efficiency side. That is what basically started triggering that first VRS that we did. But definitely we see more opportunity on that front as well. So, I would say those areas definitely there is more leverage to be had and we continue to see that we will be able to get that leverage over time.

Moderator:

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

Ashutosh Tiwari:

Firstly, the last time we talked about that out of our Rs.200 crores CAPEX plan that we have for FY'20, almost Rs.140 crores was to be spent on new products. So is that same number that we achieved for year and also the plan going ahead for FY'20 on the new product CAPEX, is there any change over there?

Mahendra Kumar:

So coming to the CAPEX in the current year, we plan to spend about Rs.200 crores is still intact, more or less I think that will be spent, but there could be some difference here and there depending upon how the situation develops going forward.

Ashutosh Tiwari:

Out of that what part would be on the new product development?

Mahendra Kumar:

A major chunk of it would be on the new product development and new business because our regular maintenance CAPEX is not much;

Ashutosh Tiwari:

And secondly, last time we talked about that we are developing a new product for export market related to some tubular product basically. So any update on that how is the progress over there and in what timeframe we can expect that to commercialize and come into production?

Mukesh Ahuja:

We started that journey this year and the CAPEX will be whatever Mahendra shared, that is one of the big CAPEX which we are investing it for the capability building as well as new product development which segments we are not present in today. As far as CAPEX is concerned, it is going as per timelines and we expect that to be completed by Q4 of this year and going forward which will give us a capability in the engineering sector to participate in the



larger export market as well as whatever BS IV to BS VI ranges happen in the country as well as electrification drive continues. So that is going to give us some further new product avenues to participate. So, it is going as per timeline and we will complete whatever internal targets we have actually own that.

Ashutosh Tiwari:

Sir, on this product, are we in the stage still in the development or you are also talking to customers on the same time?

Mukesh Ahuja:

Leveraging the current resources. We are already supplying this product in very-very small quantities to various customers so that before they pull money and full CAPEX is spent, we have a relevant experience for this product category. So, in a small manner in the various countries we already given sample and it is at approval stage so that maybe by the time the full CAPEX gets commissioned, we are fully ready to participate in the market at this stage.

Ashutosh Tiwari:

Also, Engineering division has done well on quarter-on-quarter basis in Q4 versus Q3. Is it because we got that Activa the supply would have started from December, is that the major reason why engineering has done well relatively?

Mukesh Ahuja:

Yes, you rightly pointed out. This is one of the reasons for Q4 we are doing well, maybe let us say the scooter Activa TFS has started doing that and we are fully participating in that given our large market share, that is also one of the reasons apart from many other reasons for doing better.

Moderator:

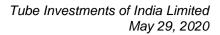
Thank you. The next question is from the line of Laxminarayan from ICICI Mutual Fund. Please go ahead.

Laxminarayan:

You had mentioned a couple of initiatives you have taken which has been successful. You talked about cycles where there has been a reduction in institutional which is actually almost doubling of the PBIT. Similarly, there have been some initiatives which have been successful. I just want to know what are the initiatives which did not pan out in the way in which you wanted to go ahead. Second is that if you can just give some information regarding Shanthi Gears because we do not get much details about that entity, how they are looking into the future?

Vellayan Subbiah:

The areas that continue to remain bullish on, but we did not get the growth we expected was basically, one, was our TMT bars business because basically that whole infrastructure segment was down significantly last year. And the second was our truck body business where we thought we will kind of scale more effectively. The big challenge we had in truck body is that we found that most body manufacturers are effectively not paying GST. And as a result our truck body end up being more expensive because we actually end up paying the tax versus the other. And so one of the things we have done as a result of that is kind of change the focus on that business now to larger fleets and how we could cater to larger fleets because the larger fleets are okay with the GST because they can get the GST back as well. So I would definitely





say that in terms of significant things that we have learned from those businesses. And what are the institutional learning? I think kind of it is basically to slow down the burn and businesses like that, right, which is what we talked about, I mentioned capital approach, slow down the burn so that we ensure we do not burn too much. So that is one thing that we have to basically look at. I think that would be kind of the two areas that definitely we saw some institutional learning. On your second question in terms of Shanthi Gears, broadly, the first half started off very well and then we saw kind of a certain amount of sluggishness come into the second half, part related to market conditions even before COVID. What we are doing there is kind of we are doing a fairly aggressive kind of rethink of the business in terms of looking at what we feel the growth areas in that business can be and I do think that there are significant growth areas. We think that is one of the businesses that can benefit from this China shift post COVID because a lot of this also happens in China today, a lot of the kind of gear and gearbox manufacturing that Shanthi does. So what we are doing there is we are going to spend the next three months basically... and we have already started the initiative, but it will take another couple of months at least to basically start fleshing out a more strong revamped kind of growth plan for that business. So we probably have better answers for you at the end of that. But, I would still say that we are kind of very bullish on the potential for that business. I would just say it is not delivered yet and we think that we have to kind of do a bit of a rethink in terms of how we drive growth there.

Moderator: Thank you. The next question is from the line of Sreemant Dudhoria from Unifi Capital.

Please go ahead.

Sreemant Dudhoria: Firstly, wanted to check on our current utilization level across our plant, in the month of April,

May, how are we doing?

Vellayan Subbiah: We have many manufacturing locations and I would say that they are all the way from 10% at

the low end to 50% at the high end.

Sreemant Dudhoria: But segment wise, broadly can you identify Cycles, Engineering, Metal?

Vellayan Subbiah: I do not think we can get into that level of segmental data. Traditionally, we have not wanted

to share capacity utilization to that level, but broadly to give you a sense, it will be higher in

cycles and lower on the Engineering and the Metals business.

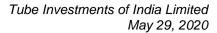
Moderator: Thank you. The next question is from the line of Sachin Shah from Emkay Investment

Managers. Please go ahead.

Sachin Shah: In the environment where we see where the top line is going to be under pressure, just wanted

to get some sense in terms of our fixed cost and variable cost. Basically what I am saying is that, if I exclude our material cost, our total cost is about 30% or in absolute numbers it is about Rs.1,200 crores per annum for FY'20. Some ballpark range of how much of that would

be fixed cost and how much of that would be variable or semi-variable cost?



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Vellayan Subbiah:

I always wary about this fixed cost, variable cost definition because it depends on what you treat as fixed and what you treat as variable. But broadly I do not think we get into too much more and rather not give too much more cost data than you broadly see from the numbers right. And I think you can kind of figure it out when you look at segmental data to just understand what our overall corporate fixed costs and kind of other fixed costs available. But I do not know what specific guidance because like what we see and we have looked at it as well, we just take manpower as fixed, what you see is the cost we incur per month is obviously greater than just the manpower cost, then how many of those costs are fixed, it is a bit I mean I would prefer not to give any more specific commentary on this. Then we publicly share, right, that is a thing that you see kind of the data out there, broader than that, I am not sure what are we going to share.

Sachin Shah:

Basically just wanted to understand that with the top line going down significantly maybe for some time, how quickly can we ramp down our costs to save the burn basically, that was the way...?

Vellayan Subbiah:

That is what I am saying, no, which is like because with our migrant workforce we just said, Hey, listen we will pay you 100% for the month of April. Now what we have to see is how do you kind of make more medium term and long term goals on some of those things. And I am saying that is what I feel is indeterminate, right, so, for example, if this thing is going to sustain over the next six months, what impacts we would take onto our costs will be different from this thing is going to kind of bounce back two months from now. So I do not want to make commentary on what is fixed and what is variable because we have to keep adjusting those based on the environment.

Moderator:

Thank you. Thank you. The next question is from the line of Susmit Patodia from Motilal Asset Management. Please go ahead.

Susmit Patodia:

Actually this time I wanted you to wear your hat of the auto industry expert and tell us how bad this can get for the CV cycle and you think actually there could be a surge in personal mobility demand for two wheelers and four wheelers, so just wanted to understand the landscape that you are seeing right now?

Vellayan Subbiah:

My perspective is that I do not have a crystal ball; I do not think anybody at this point has any idea what is going to happen to all of these things. Broadly do people believe that auto is going to take a hit? Yes. But broadly do people believe that CVs are going to take more of a hit than two wheelers? Yes. So I think those are broad themes that people broadly believe in. But beyond that if we basically start looking at this and saying how we act. That is the important thing for me. That is what I said right, which are the two themes that we have been talking about for a while, have been kind of that whole electrification and autonomous driving theme, which is why kind of the OPEX business which is why we are looking at electric side and we still think that theme is in place. And the second is saying that with TI-2 and TI-3 we want to move a bit away from auto and we still think that theme is also in place. So, that is all I can



look at. And I do not think any of us in the team are kind of huge expert to basically say, this is where it is going to go. I think anybody trying to say that deterministically at this point is just I mean they have no guts....

Moderator:

Thank you. The next question is from the line of Nikhil Upadhyay from Securities Investment Managers. Please go ahead.

Nikhil Upadhyay:

Sir, I have basically three questions. One is like in one of the previous participants question, you mentioned that around Rs.140 crores of CAPEX we keep doing for new products and all. And just tying it up with your TI-2 and TI-3 strategy of diversifying from the auto to non-auto segment, I just want to understand where we would be in terms of the product launches in the non-auto segment and how much of a time or cost do we need to incur or it takes for us to actually ramp up the products or get traction with the new customer, so just to understand where we are in terms of getting that TI-2 strategy with the new product CAPEX which continue to do?

Vellayan Subbiah:

TI-2, what I have told you is that we take the venture capital approach thing, right. So the first goal on we are not going to spend massive amounts of money. So for example in optics, the first CAPEX was less than Rs.50 crores. Like I said it was meant to go up this quarter. Unfortunately not able to get it up. If the plant is pretty much ready, all the improvement is in, so we will definitely start either in June or in July depending on kind of movement of people and such. So that product we will launch then. And so if we can kind of make it successfully, then we will start spending more CAPEX on a kind of scale the product out, right, because if we can make it successfully, we know we can sell it. Electric as a product, we basically think it will be somewhere in the next year. So it is going to be kind of not this financial year but next financial year is when we will be able to launch that. So that is our initial thinking. And obviously as other products come up as well, we will continue to have a perspective to bring them to market. The acquisition side is inorganic, right. So when it happens, it happens.

Nikhil Upadhyay:

I am new to the company. Just to understand, for our total revenue, what would be the mix between aftermarket, exports and OEM, is it possible to share it on a segment wise basis or...?

Mahendra Kumar

Exports you can broadly take about 9% to 10% of the total. The breakup of aftermarket generally we do not disclose separately.

Moderator:

Thank you. We will move to the last question from the line of Sreemant Dudhoria from Unifi Capital. Please go ahead.

Sreemant Dudhoria:

I got disconnected earlier. So I was following up on the higher utilization in the cycle's division and what we also read globally is the demand for cycles have spiked up after the lockdown comes to an end. Are we seeing a similar trend even in the domestic market?



Vellayan Subbiah:

It is too early to tell, right, because I mean the lockdown really has not come to an end in a kind of lot of places, right. And like I said I do not even want to use, let us just say we get one week's data, I do not want to use that for anything because there is also pent up demand, right. So I think it is too early for us to pass commentary. We are definitely looking at the same opportunity that everybody is looking at where they are saying that, "Hey, listen, cycles are up in demand, so we are looking at both export and domestic and seeing how we can fulfill that demand especially if it does kick in both on the export and domestic front.

Sreemant Dudhoria:

This is a broad question. We are quite diversified across product segments, but if you have to maybe pick the segments which you think are likely to bounce back first, what would those segments be?

Vellayan Subbiah:

So generally people believe that exports and aftermarket is going to pick up faster than domestic OEM growth. We are also of that view.

Sreemant Dudhoria:

And finally, on the VRS part, is there more exceptional number likely to come in the coming months or we done with that?

Vellayan Subbiah:

Your question is we are going to do more VRS, is that your question. One more chunk that we have planned for, for this year, so that answer is yes.

Sreemant Dudhoria:

Would you like to comment on the size of that?

Vellayan Subbiah:

No, actually, I mean, it will be in line kind of with the current one.

Moderator:

I now hand the conference over to Mr. Kashyap Pujara for closing comments.

Kashyap Pujara:

Thank you, everyone for participating in the conference call and apologies if a couple of questions were unanswered. Due to paucity of time, we tried to take most of the questions. In case if there is any pending questions which anyone has, please feel free to write to me or the management and we will definitely get back to you. Thank you Mr. Vellayan and thank you so much to the entire management of Tube to be here on the call today.

Vellayan Subbiah:

Thanks, Kashyap. Thanks everybody for joining us and stay safe.

Moderator:

Thank you. Ladies and gentlemen, on behalf of Axis Capital, that concludes this call for today. Thank you for joining us and you may now disconnect your lines.