"Tube Investments Q2 FY21 Earnings Conference Call Hosted by Axis Capital Limited"

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Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY21 Earnings Conference Call of Tube Investments hosted by Axis 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kashyap Pujara from Axis Capital Limited. Thank you and over to you, sir.

Kashyap Pujara: Thank you. Good morning everyone and thank you so much for standing by. It is a great pleasure to have with us the senior management of Tube Investments to discuss the Q2 FY21 earnings. From the management side, we are represented by Mr. Vellayan, who is the Managing Director; Mr. Mahendra Kumar, who is the CFO and we also have the Business Head, Mr. Mukesh on the call. Without much ado, I hand over the floor to Mr. Vellayan. Mr. Vellayan, many congrats for a fantastic set of numbers, I think we have matched up on Q2 topline last year. We have shown cost cuts and taken margin higher and I think I have not seen these kind of working capital levels that we have had over so many years of me covering to you. So over to you and leave the floor to you, sir.

S. Vellayan: Thank you, Kashyap and good morning everybody. Welcome to TII earnings call. I will just go through the quick commentary as usual and then be happy to turn it over to you for questions.

Our standalone Q2 PBT was at 129 crores which is a growth of 17% over the same period last year. Revenues were at 1,087 crores in the quarter compared to 1,113 crores in Q2 last year. PBT was at 129 like I said and that is before exceptional items. Our ROCE is now 27% for the quarter compared to 22% and we generated free cash flow 246 crores for the quarter, which is 256% of PAT. The PAT for the quarter was at 96 crores as against 90 crores in the corresponding quarter in the previous year.

In terms of individual businesses, revenue for engineering was at 565 crores compared to 554 in the same quarter last year, and PBIT for that business was at 84 crores as against 63 crores in the same quarter last year. Cycles and accessories did revenue of 212 compared to 217 in the same quarter last year. And PBIT was at 18 crores compared to 6 in the corresponding quarter of the previous year. Cycles seem done a great job of basically improving efficiencies and bringing down the overall cost and the cost structure and therefore kind of making ourselves much more competitive.

From metal forming products, revenue was at 353 against 379. The difference in the delta is predominantly driven by lower railways revenues because railways business has been slower than starting up. We do believe those at the rest of the year we should be okay. And PBIT for this business was 38 against 40 for the same quarter last year. On a consolidated basis, we were 1,193 crores versus 1,247 and PAT was at 101 versus 93. And Shanthi had revenues of 54 against 71, there is quite a bit of a drop, but PAT was at 7 versus 8.

I would just like to say that the team has done a phenomenal job in coming back from COVID as with the entire company. I would say it has been a herculean effort given the toughness of bringing back our supply chains to normal and everybody on the team including the leadership who is here with us, I really go above and beyond the call of duty to get back to normal. And not only that, most of the senior management team has basically been double adding as we kind of also try and get an impeding acquisition to closure as well. So I will really say that this whole quarter is dedicated to the people who just put in such an incredible effort on all fronts to kind of make what has happened over this quarter. And let me stop with that commentary and turn it over to all of you for any questions that you might have. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Abhishek Ghosh from DSP Mutual Fund. Please go ahead.

Abhishek Ghosh: Sir, just couple of questions. If you look at the individual segmental margin, your engineering division has moved up to something like a 15% margin profile, but if I look at your quarterly revenues, you still down about good 20%-25% from what peak revenues you had done in 3-4 quarters of FY19. So I am saying whenever and because of the operating leverage factor, do you believe you can be that 17%-18% margin business whenever you reach those peak utilization, just wanted to get some understanding around?

S. Vellayan: Obviously, there are several things that happened kind of because of this COVID like things right. When you go to shutdown kind of, there are something in terms of like price realizations in steel that got adjusted. Basically, there are several things, I would say that, are there in a particular quarter. If you ask me, in the long term can we get to those kinds of margins, our belief is that yes, but it requires much more work and basically doing a lot of things like we share on the quality front, productivity front, kind of a shift to lean. All of those initiatives continue. But I would say that definitely if volumes were to go back, in different businesses we are in different positions. But volumes in all of our businesses were to go to kind of peak 18-19 levels, yeah, definitely, our margins would be kind of bit healthier than where we are today.

Abhishek Ghosh: And just coming to the cycle division as well, for the same revenues you moved up to that 8.5%-9% kind of a margin profile now. So obviously cost efficiencies you have mentioned in your opening remarks, but is there a pricing improvement because of competition one of the key players shutting down their operations and exiting the market, has that helped and is the overall demand scenario kind of helping on the pricing front?

S. Vellayan: So pricing has been driven a bit by overall demand. Overall demand definitely is halved and there seems to be at least from what we can tell is structural shift where we have seen a lot more people want to kind of consume in that area, which I think is good for the market not just in the short term and the medium term. And just to give you a sense, that trend is not just domestic, the trend is a fairly global trend and so what the cycle see now is gearing itself up to do no pun intended, is basically that they are beginning to look at exports in a big way and I think that will also be something that is encouraging in the medium term, right. So honestly, the challenge we had given which is we want to kind of all of our businesses to be 10% PBT and there were some businesses that if you had asked me kind of 2 years ago, I said maybe, they would not make it, right. But I think the kind of the teams that they are showing us how resilient they are and some of what we are seeing from our performance perspective which is demonstrating that. I am extremely bullish with the results of that.

Abhishek Ghosh: So in the metal form division, you mentioned in your opening remarks that the railways has pulled down the overall revenues and what we see about 7% kind of a decline, so is railways slowing down on their CAPEX or is it more of a temporary phenomenon, if you can just help us understand that?

K. R. Srinivasan: See, the railways finding it difficult to ramp up operations in their plant. That is the reason the topline has not grown in this division. And as we speak, they are ramping up the operation and Q3 and Q4 are likely to be much better than Q2. That is how we see the quarters.

Moderator: Thank you. The next question is from the line of Manoj Bahety from Carnelian Asset Management. Please go ahead.

Manoj Bahety: Sir, I have couple of questions. First one is like recently the kind of shift which is happening from China to China Plus One and across our various division mainly engineering and metal forming and also I think you have aspiration to grow export proportion of your sales. So in this scenario, how are you seeing this opportunity and are you also planning to have accelerated buildup of capacity, CAPEX going forward on this? So this is my first question, sir.

S. Vellayan: So I think that definitely we see opportunities from the China Plus One challenges, right. And if you ask, yes, everybody is beginning to kind of see that, right. That there is opportunity and we have to kind of go after this. So the broad answer to your question is yes, we are seeing that opportunity and yes, we will start ramping up capacity. Where we ramp up, capacity will change because obviously in certain businesses, we are seeing that opportunity be more ramping than others. And therefore our focus will be on businesses where we see more opportunity. Specific examples include the bicycle business, industrial chains and like for example in engineering, we are developing a new product for which we are getting new capacity and we are investing in that capacity as well, right in the tubes business. So across we do see that opportunity and yes, we are focused on it.

Manoj Bahety: And sir, if I look at your business verticals across like it ranges from cycle chains to like engineering where you are also pioneering into some of the products which will contribute to your margins. So on this, if you can give us some broad level transformation which is happening from let us say to low margin product to a high margin products where the entry barriers for, I think you will be better placed in terms of competitive landscape?

S. Vellayan: I think we have articulated this in our prior calls as well. That is the reason for some of the shifts to offtake and kind of going further up the value chain in the businesses we are in. But broadly that is the approach we are taking, right which is each of the businesses understands that they need to be in, therefore it starts altering both their product mixes and their business strategies to support that. And I think each of the business teams has articulated their approach towards this as we have on prior calls as well, right. So I think this is in line with how we are approaching it overall. I do not know if you are looking about specific commentary on a particular business, but that is in line with how we are approaching it overall.

Manoj Bahety: Sir particularly your metal form business where I think you are targeting some new products especially the door frames of cars where it will make some kind of headroom into few of the OEMs on that and also you have spoken about like truck building capabilities which you are building across where you are targeting large unorganized market. So on those two parameters, if you can comment?

K. R. Srinivasan: We continue to enjoy a big major share in the segment, and like you asked are you actually profitable, yes, we are profitable. So in car door frame space, we are in a dominant player and we continue to enjoy large market share, major market share in that segment and we will continue to grow that. We are a major player with Hyundai and we are trying to expand our offerings to customers, so that for the same level of investments and fixed overheads, we get in a more business from the same customer, naturally your profitability will increase. That is the approach we are taking as far as door frames are concerned. Does that answer your question?

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

Shyam Sundar Sriram: Very strong delivery, despite a very tough situation that we have been seeing for the last 6 months, sir, many congratulations on that. Sir, my first question is on the cycles, we have seen a very strong EBIT margin and ROCE improvement therein for the first time in separate quarters both of these metrics have gone through ROCE side to put it that way, so are these metrics sustainable going forward from a ROCE perspective as well as the margin perspective, if you can give some color on that?

S. Vellayan: So you are talking about cycles and which other business?

Shyam Sundar Sriram: Cycles sir.

S. Vellayan: For cycles, our belief is that we are going to get more and more competitors, so in general, the belief is yes, the team will be able to kind of sustain better numbers than what we had in the past. Now, obviously this is dependent update on the demand side. Demand side is strong now. To hedge on domestic demand, we are also developing capabilities for export, but as long as the demand side holds up, Shyam that answer would be yes, but to your point Shyam, I believe if the demand fixed at the current level, yes we will be able to hold up**,** domestically also we will hedge on that.

Shyam Sundar Sriram: Sir, the second question is on the sustainability of the cost that was specifically on the commodity prices, we have seen a very sharp increase in the base material prices per say, so I believe the price negotiations would have happened for the second half, so going forward as we look into the second half, how are we looking at the commodity cost trending for our business across various businesses therein, so if you can give some perspective or can we maintain these levels of the RM cost, especially the sales given after we passed on the cost to the customers, is that something that we are looking at?

S. Vellayan: Understood Shyam, so I think actually Mukesh is on the call and his is the largest business that is affected by that, though KRS' also to an extent, but I let Mukesh answer that question.

Mukesh Ahuja: Yes, Shyam, you are right, may be let us say the commodity prices are really going up, the steel prices, particularly may be we see from last 2-3 months is going substantially up, but we have our arrangement with all the customers with the OEMs as well as customers and we are fairly confident, we will be able to recover that going forward.

Shyam Sundar Sriram: But there could be one quarter of lag in that sense?

Mukesh Ahuja: That is what we told we have a prevailing arrangement with all the customers, may be whether it is a reduction or whether it is an increase, some lag will be there, but that is as per the usual practice and we are confident that in this difficult environment also, we will be able to recover it fully.

Shyam Sundar Sriram: One last question sir, on the non-auto business, both from engineering and metal forming, metal forming you did allude to the railway business being weaker now, which will pick up later, but from an engineering side on the non-auto side and from metal forming industrial chains, etc., what is the outlook that we are looking as we look forward now and secondly, on the export side, other than the new product that we talked about because of moving away from China, what is the existing business exports looking like?

Mukesh Ahuja: Both are our actually focused area in the engineering business particularly, may be going forward, the marginal improvement and may be even the market growth is going to come from the exports market, for which we are putting even the CAPEX for the new product development also, because we always want to invest in area which is the newer not existing in the country and participating in the exports market and coming to the non-auto hydraulic cylinders part of the business, which is taking I think some time to catch up because of the commercial vehicle and off-road vehicle industry, we are hopeful that Q4 onwards that business will also start growing going forward.

Shyam Sundar Sriram: Then aftermarket has been holding up pretty well sir? Is that the fair understanding generally..?

Mukesh Ahuja: Yes, for engineering business, we generally give it to OEMs and they do the aftermarket business, but aftermarkets, right now is very strong and whatevermaterial we provide for aftermarket, maybe we see the good quantum of growth is happening on those areas also.

Shyam Sundar Sriram: Even, I was more referring from the metal forming chains business, etc., if that also holding up very strongly sir, has that come back to the prior level?

K. R. Srinivasan: KRS here, I will answer that. Yes, you are right, aftermarket is very strong today, last 3-4 months have been very good and it continues to be promising going forward as well.

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

Kashyap Pujara: I have couple of questions, if I look at the working capital of Tube, this time round at least in the mid-year, we are seeing close to 30 or 40 odd crores of working capital net if I was to just look at the cash conversion purely and this is lowest because normally we were having 200 or 300 crores of net working capital on say 5000 crores of sales and this time around the working capital has really gone down because of payables kind of moving up. Also, I can see capital employed of cycles which is less than 50 crores which was similarly to 2010-11 levels and this is despite new capacity having come on board, so the question is that would these levels be sustainable or do you think that they will normalize and these are one-offs?

S. Vellayan: Yes sir, I do believe this is a working capital that you have seen here is like an all-time low, so it will go up a bit, undoubtedly, I think it will go up from its current level and we should kind of plan for that. What level we kind of can fix that, honestly what the cycles guys have done is kind of they had a massive structural correction and they are currently operating a negative working capital which I think is fantastic and my belief is that they will continue to kind of operate like that. Engineering and metal forming have also improved their working capital positions significantly, but they are running at lower levels than what I think we will take over the cycle because what happens with COVID also is that everybody's inventory is basically kind of got drown down fairly, so what I think will happen is that we will get back to a level that above where were us, but obviously not kind of close to where we were as before.

Management: So Kashyap, it is not entirely driven by increase in payables alone, even inventory and debtors also are lower level, some of that will get corrected in Q3.

Kashyap Pujara: Generally, the channel check that I am doing across many industries especially smaller companies, I am seeing a trend of debtor tightening incrementally, so while the earlier cycle might be having higher debtors days, but incrementally most of the B2B businesses also a kind of tightening the requirements of receivable days and incremental business that is being done across many B2B businesses is on lower receivable days compared to what was historically seen earlier, would that be a fair assessment that you would have also come across?

S. Vellayan: Yes, definitely, we see that happening Kashyap and I think that yes, your assessment is correct.

Kashyap Pujara: And lastly and we will not hold back the Q any longer, is the cycles business, I remember earlier managing director, we have always kind of said that this is like a 5% margin business and 7-8% growth, 5% sustainable margins broadly as a trend line trajectory and we have seen very healthy margin improvements in cycles business now at close to 8-9% and also incrementally the trend that I am seeing at least may be post COVID is that people are taking more to health and fitness and since gyms are shut, most of them kind of taking cycles and in fact in Mumbai, I must put it on account that there is a shortage of quality bicycles like Montra, there is no inventory available across most of the stores, so do you see that you might be for a growth spot here compared to what was historically seen for us earlier, so may be the growth and margin, both have room for scale up from here?

S. Vellayan: Well, so let me put it this way, right, the segment that you are talking about is kind of definitely we see that there is opportunity and I agree that, so when you take the high performance segment which is Montra and all that it is a fairly small percentage of overall sales, but in general everybody across our segments especially in both kind of recreation, the MPB, and in our performance bikes, we are seeing a shortage because demand has picked up, continues to be at quite an elevated level. So I do think that is encouraging and honestly that is why I said, I think it is too early to say whether it is kind of structural change and whether it will continue, but I definitely do think that it is a good position right now and so it is fairly encouraging. That is kind of our perspective.

Moderator: Thank you. The next question is from the line of Pankaj Tibrewal from Kotak Mutual Fund. Please go ahead.

Pankaj Tibrewal: Just a couple of questions, you and the team has done a real job in the last couple of years in improving the profitability, the metrics you guys talked about, if you were to crystal ball gaze for the next couple of years, what are the things probably we would like to improve from here on, a fair bit of profitability across divisions have been done there. For the first time, we saw demo model which you have always spoken about in US with CG power coming in, so if you were to crystal ball gaze for the next couple of years, what shape and form will the company look like, one and in this journey what are the challenges you are facing now which probably could be a headwind from company perspective from the next couple of years? So that will be my two questions?

S. Vellayan: Pankaj, I will say that first half right, the good thing like you said is the different elements are kind of beginning to play out. Like we said, the first part is kind of what earns us the right to do anything I think is improving our profitability and honestly like I said, there is still a lot of way to go there and I will come back to like say you had asked whatever we need to do, I will still say that we are only like we are less than, we have not been got 50% of TQM and in terms of Lean, I say we are about 20%, Lean and TPS I say we are like 20-25% and TQM, may be we are at 50%. The significant part on that part of the journey that needs to kind of do that we need to continue. So that is one element of it. The second is, if you said where will TII be, I think, first like, it is a continuous kind of engine that we are trying to build and I have always I think from the first medium we have talked about this concept of engine design right, what you are designing the engine to do and from TII's perspective, we have to have an engine that is a free cash flow generator that then the free cash generator can be deployed to TII2 and TII3 and then each of those entities then has to become free cash flow generators overtime. So we still have to prove that TII2 and TII3 can become their own free cash flow generators, so that is something that we have to prove over the next two years and that’s an imperative for us because I think we will prove and hopefully this will and I am confident given kind of my knowledge of the team and what it’s done that TI 1 will continue to sustain as the free cash flow generator. And if the team manages to do that in this environment, I have full confidence that we will be able to do it in worst environment. So I think basically that’s what we are trying to build. We are trying to build our core free cash flow engine that keeps getting enlarged over time to build more and more capacity, to allow the company to scale at the levels that we have set out which is basically we have to bring back, the numbers we have not deliver consistently is at 17% revenue growth number and we are sure we can deliver that also aided by TI 2 and TI 3 hence kind of the acquisition approach and then now the second thing to prove is that that each of those entities in TI 2 and TI 3 can become their own free cash flow engines as well. So that part is still unproven. Like I said the second part that’s unproven is I mean is not unproven the second part that is basically early in our journey is on Lean/TPS and TQM and then the third part really that we are starting to kind of think more and more about, Pankaj, is talent. Basically if we have got 20 BUs today and we want to be at 100 BUs in the near future, we need more BU heads and how do we start grooming that talent and honestly like here again we have articulated the approach which is broadly that I do in Year 1, the team has to do in Year 2 I mean my direct reports need to do in Year 2 and then one level down from there needs to do in Year 3. That’s something that we are constantly striving to do. As a matter of fact even with kind of whether like I said the transactions were not closed yet. But a lot of the integration work, a lot of the work that has to be done post that will be driven by the team, not by me. So constantly we are looking at how do we push that envelope so the biggest question is talent and talent development and their leadership development where we are going to move our attention front and center hopefully in the near future year.

Moderator: The next question is from the line of Vikas Khemani from Carnelian Capital.

Vikas Khemani: I have two questions on CG Power, one is that if you can just share the broad thoughts on how we plan to sort of turn that around over next couple of years and secondly specifically on that how do you plan to fund that? Would you have some capital raised in TI at some point in time to capitalize that CG Power?

S. Vellayan: Specifically, we are not having any conversations on CG. First that transaction has been closed so they are unable to basically kind of have conversations on that and right now it is its own entity, so we will pass commentary on that after we close the transaction and once we had a chance.

Vikas Khemani: So what's the timeline of that any broad sense you have on that?

S. Vellayan: It should happen in this quarter.

Moderator: The next question is from the line of Niket Shah from Motilal Oswal.

Niket Shah: First on the margin side of it, it's been a phenomenal journey from where the margins were earlier and where we are at now, almost at 11.5%. How much room do we have and where are we in this journey because our top line has not grown in the last few quarters and yet we have seen efficiency gains coming in? So do you think that incrementally from hereon we will see a situation where top line will also start growing up and that will kind of stick in and as incremental more margin expansion, so that's a first question? The second question was on the breakeven points of the plant, during COVID how much have we brought it down and do you think some of the cost initiatives that you would have saved because of bringing down the breakeven points are sustainable? Those two are my questions.

S. Vellayan: I will tell you let me just have both Mukesh and KRS answer this question for you because they can talk about their individual perspectives from their businesses and then if need be I can add some overall color. But Mukesh and KRS can you answer that question?

K. R. Srinivasan: I am KRS here; I take care of Metal Formed Product Division. Your question is valid; in fact, we are looking at the top line growth in the coming years which will further push up the profitability because of contributions kicking in with disproportionately lesser. So the coming years also we are looking at some good top line growths in various verticals of all the metal formed products and all the business units. And about your question on breakeven, yes we have brought down the breakeven significantly in this year, these two quarters using the disruptive situation and we would like to sustain it going forward though there would be some small corrections when the operations scale up.

Mukesh Ahuja: Like KRS mentioned, there is good headroom available today on increasing the topline. We have already invested in our Rajpura plant and we see that maybe those capacities are also catching up. Even the automobile industry has at almost bottom line which can go only up and also our focus on exports market as well as we are doing some CAPEX on the new product development which are the growth levers we are going to apply going forward. We are pretty confident that growth is going to follow which we could not do in last two or three quarters because of the environment extra. Going forward to breakeven we have done a good quantum of work in last 1-1.5 years' time by bringing the breakeven down and that is the reason our performance was visible in current quarter respective of the difficult environment. But still like Vellayan mentioned lot of work is still pending on the journey of TQM, in the journey of the Lean even the working capital front we have done a great work. But still we feel there is a good headroom available going forward by bringing the Lean approach and improving on the quality. So mixture of these quality and the lean approach is also going to give us for the headroom to be more sustainable, even grow margins going forward in our view.

Mahendra Kumar: Just one more point I would like to add here, just like how Vellayan explained in the beginning of the call, there are also certain raw material price negotiations which got finalized during the quarter. That also gave some encouragement to the margins. Having said that like how Mukesh and KRS explained there are also certain actions which are in place or which are in progress to improve margins further.

Niket Shah: On the margin side just to complete loop, is it fair to assume that we are halfway through and going to 14%-15% PBT margin is a possibility?

S. Vellayan: You can get direct commitments from Mukesh and KRS. Obviously that's our aspiration but again we should set that kind, yeah we would like to get there over a 3 to 4 year period.

Niket Shah: The second question was on CG Power and obviously not asking specific questions on CG Power but just wanted to understand on the funding side of it, is it safe to assume that at a future date we might look at a capital raise to keep our balance sheet tight?

S. Vellayan: We don't want to provide any commentary on things we have to stay silent on. So like I said we won't kind of discuss any of those matters and I guess that's my short answer.

Moderator: The next question is from the line of Ratheesh Warrier from Sundaram Mutual Fund.

Ratheesh Warrier: Just couple of question in terms of Cycle business; to understand what will be your market share in the Cycle Division, that is one? And second, one of the earlier participant Kashyap asked if there is a demand and we don't know whether it will sustain for next 2-3 years, given that sustains how would the ramp-up plans there in terms of investment side and the distribution segment or do we have that distribution segment ramped up if the demand sustains here? And one more question in terms of margins here, looking at where the steel prices have moved up, are these margins sustainable or can these pricing be passed on at current environment?

S. Vellayan: Your first question, Cycle's market share I believe we are somewhere at about 25% currently. Second question was, so do we need to ramp up, both on manufacturing and distribution I think, so distribution we have been ramping up. That's been helping kind of our growth and we continue to ramp up on Cycle's distribution. And manufacturing we got adequate capacity because we have also got the Rajpura plant. We would say we are not using kind of more than 60%-65% overall capacity right now, assembly capacity. The challenge with the market supply right now is because some components shortages are there which we are also working to correct so that we have more capacity to ramp-up even quicker there. And then you had another question, what was the other question?

Ratheesh Warrier: In terms of margin sustainability in this business, so steel prices are moving up, so can it be passed on?

S. Vellayan: We answered the margin sustainability question. Mukesh you can answer again.

Mukesh Ahuja: Like we mentioned earlier we will be able to pass on the steel price increases with our customers with the prevailing agreements whatever we have with all customers, so we are pretty confident there will be no effect on margins because of the steel prices.

Ratheesh Warrier: Just one more thing on this in the Cycle business, the product mix so when you are saying 25% market share, so when we talk about the Base Cycle, Premium Cycle, can this product segment anywhere compositions or anything can change whereby that can even benefit moreover margin, our realizations etc.?

S. Vellayan: I think what you are seeing is that the team is doing the right things. The team is focused both on supply side and demand side and is doing the right thing. So obviously one of the things that we have started altering is product mix and we will continue to kind of look at that and keep altering that. So if your question is have we done everything we can, the answer is no.

Moderator: The next question is from the line of Hardik Doshi from White Wealth Partners.

Hardik Doshi: As part of your strategy you had mentioned that one of the pillars is to see these new areas to expand into, so can you just give an update on where we stand out there in terms of the initiatives and also given the CG Power acquisition, are we looking at capital allocation of there maybe over the next couple of years or so?

S. Vellayan: A couple of things, for example on a new growth areas in the two, couple of those have been a bit slowed down because of the demand environment and also for the Lens business, in the optic business the challenge we had is that all the equipment was all imported but we needed people from outside of country to come and set it up and they have not been able to come into the country, so we are trying it to do it on teams, not the optimal way to basically kind of setup and start new plant but we have been working on it. Now I think it's a bit slow but in my mind the traction is definitely kind of going to get there, so I'm not too worried about it. What we have seen in terms of capital allocation in the end I will say that my line is always been that in the end we are South Indian. Till we head to a space where we feel comfortable with the debt level, we are not going to go out and kind of do anything crazy. So that's basically the way broadly I look at it. Is there enough capital required from both kind of organic growth plus something like inorganic? Yes, there is.

Hardik Doshi: Would it be fair to say at least for the near term the focus will remain on the lens business and probably not incrementally seeding anymore new businesses?

S. Vellayan: Those businesses don't take up a lot of capital. That's what I'm saying because like chewing up any massive amount of capital. So in our CAPEX program all of that is already included. So the free cash flows you look at is basically kind of after we have incurred those kind of capital required for that.

Moderator: The next question is from the line of Susmit Patodia from Motilal Oswal Asset Management.

Susmit Patodia: I just wanted to take your perspective Vellayan on the Cycle business, I'm sure 2 years ago when you came in there would have been different strategy perspective on the Cycle business in the way it's kind of come back and I remember you telling us on a call that they had taken up it as a challenge to prove themselves otherwise. So how are you looking at this business now, are you going to be investing a little more, are there plans changing for this business?

S. Vellayan: Like I said and even in my earlier commentary the first thing I kind of admitted was that it's been kind of an amazing change. It's absolutely fantastic. So the thing that's encouraging for us now is that we see an opportunity that they themselves as a team are just kind of redefining their future. Honestly, like I said two years ago we gave them a challenge, what they came back to us with and unfortunately, KK Paul who runs that business is on vacation and otherwise he would be here with us. But what they had done in that business is that they have basically come back and talked about that how are they going to become the #1 division in TI.

Now I don't know whether Mukesh or KRS will let them but the point is I just think that that's the level of confidence is they have come up with and they are delivering the performance to support that. Capacity is not that much an issue for them, both in Sri Lanka and in India they have adequate capacity. So it's not a capacity constraint. They are just really showing the will and the capability to outperform which is encouraging and so I would support that as long as they continue to deliver.

Susmit Patodia: Any expansion plans that you are pushing them now that they have crossed the hump of the first challenge? I'm just trying to understand is there a Cycle 2.0 that you could give us some clues into?

S. Vellayan: I don't push anybody. I think definitely they have come up and they have kind of actually developed whole vision from ability and I would basically said that's what they have shown is that they have a fairly exciting road ahead. As far as Cycle the beginning they explored, basically they are looking at both export market and India market and seeing how it they are going to basically push the envelope in terms of what exists, and I think that's fairly exciting plan that they have.

Susmit Patodia: Because why I am just delving into little bit this is the only B2C kind of business that you have and you can make a success out of this then it opens up completely different revenues growth for you.

Moderator: The next question is from the line of Shyam Sunder Sriram from Sundaram Asset Management.

Shyam Sunder Sriram: My first question is on the TLI localizations theme that are being talk about, so are there any specific large products segments that we are eyeing that can come to over a 2 year timeframe from this localization thrust of the government per se? Is there anything that you are seeing as an upcoming opportunity which may evolve over a 2 year period using such opportunity that you can comment about?

S. Vellayan: We are exploring. There is nothing specific yet but we are exploring that area.

Shyam Sunder Sriram: Which category is, is it on the…?

S. Vellayan: Don't want to say, I would just say that we are looking at it in a few categories. So we don't want to talk specifically.

Shyam Sunder Sriram: One other question, on the export side we were developing new tube products and given on the Vision system side we were about to start the operations and then done for 2 to 3 years timeframe, how are those initiatives panning out because our exports in FY20 was a sort of a down year compared to the prior peak in FY19. So, from that perspective going forward over the next 12 to 15 months how is that specifically looking like on the new products as well as the existing business, you can comment the export is the focus area, but some specifics will be helpful.

S. Vellayan: Mukesh you want to comment on that?

Mukesh Ahuja: Yes Shyam like we shared earlier this CAPEX is progressing well and we expect that CAPEX to get over by Q4 of this financial year and post that we will be starting our development process with two customers. We will be getting approval and taking this customer approval and ramping up the business. And as far as export growth is concerned because we are going to enter into new segment, so it will be a market share gain at global level and that is going to give us a headroom going forward and it is a very-very safety critical product where we are going to expand our engineering business going forward.

Shyam Sunder Sriram: So one can assume that we can cross the prior FY19 exports over next 12 to 15 months period? that is fairly possible, is that something that you are alluding to?

Mukesh Ahuja: Yes.

Moderator: The next question is from the line of Ashutosh Tiwari from Equirus.

Ashutosh Tiwari: Firstly on the Cycle's part, I have a question. In our mix in Cycle sales what will be share of premium cycles and has that changed significantly over last few months?

S. Vellayan: Sorry you question is what is our share in ladies cycle and what?

Ashutosh Tiwari: No, premium cycles. So you have basic cycles and premium cycles health-related cycles, so is the share of premium cycle increasing in the overall mix in cycle sales?

S. Vellayan: Premium cycle is very small and increasing, yes, it is.

Ashutosh Tiwari: I wanted to understand that low-cost cycles like the entry level cycles, is that share decreasing or that also has not changed much over last 3-4 months as well?

S. Vellayan: Initially in coming out of this thing we did lose some share but now we are basically giving that share back month on month and we believe by the third quarter we will be back to higher sales than we were before.

Ashutosh Tiwari: Secondly on the metal forming side, how is the industrial change doing right now? Where we are versus pre-COVID now?

S. Vellayan: Industrial change is doing very well, both export and domestic we are back to pre-COVID levels and profitability is higher than what we were before.

Ashutosh Tiwari: And lastly any opportunity that we see in terms of replacing the things which comes from China in our business and in Cycle if that is happening or not right now?

S. Vellayan: I did not understand the question.

Ashutosh Tiwari: I'm asking that are we seeing any opportunity in terms of replacing some of the products related to our….?

S. Vellayan: Yeah we answered that question earlier. Definitely yes, we do see that opportunity and we are exploring that in all of our businesses and channels.

Moderator: The next question is from the line of Devesh Kayal from Carnelian Capital.

Devesh Kayal: When will the plant of the Optics be operational because I think you earlier mentioned Q2?

S. Vellayan: Optics is operational now. It's just not scaling up, so it's not scaled up yet.

Devesh Kayal: And from this new businesses, truck body and this Optic and the other one, so what kind of revenues, is it fair to assume 500 crores type of revenue over next 3-4 years, it is what our target internally?

S. Vellayan: That's what I have always told people for these please don't put them into your model. Sometimes I kind of always feel like the easier thing is just not to talk about them at all because you have to look at this. These are like VC type options that you are developing for the company and which takes time to develop nd grow. The summary of this business is we just have to let them kind of grow at their own pace and so I don't think and nowhere in our internal models we basically build out these into our revenue models or our numbers.

Moderator: The next question is from the line of Hiten Bolecha from SeQuent Investment.

Hiten Bolecha: My first question is like each and every segment is growing really very well. We are seeing the good margin in the Cycle segment as well and as you mentioned that we are expecting this margin to be sustainable. So what kind of revenue growth we are seeing like in FY22, in FY21 any internal target for our growth?

S. Vellayan: You are saying revenue target?

Hiten Bolecha: Yeah, revenue growth.

S. Vellayan: I think it's too early to comment. Nobody knows what the environment is going to be like. It's too early to target because nobody knows. We don't have that kind of visibility, so we don't want to offer commentary on that.

Moderator: The next question is from the line of Sailes Raja from B&K Securities.

Sailes Raja: How is the response for the new product like SSID product under large diameter, are there any plans to introduce the same in the overseas market as well and what is the market potential in domestic and overseas market and application of this product?

S. Vellayan: Large diameter, Mukesh you want to take it?

Mukesh Ahuja: Yeah, we are in process of development of this particular specific category what you talked about SSID Tubes and we have sent the samples to global market and we are awaiting the feedback and based on the feedback we will be ramping up this segment going forward.

Sailes Raja: So what is the market potential in domestic and overseas market?

Mukesh Ahuja: Domestic is not much here, maybe let's say largely potential comes from the global market only and it's a large market.

Moderator: Thank you very much. Ladies and gentlemen due to time constraint that was the last question. I now hand conference over to Mr. Kashyap Pujara for closing comments.

Kashyap Pujara: Thank you everyone for being on the call today and thanks to Mr. Vellayan and all the members of Tube Management to patiently answer all the questions. In case if there are any unanswered questions, apologies for the same and please feel free to write to me or Aditya and we will kind of get the questions answered through the management. Thank you.

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