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EQUITY, DERIVATIVES, CURRENCY, COMMODITY, DEPOSITORY, MUTUAL FUNDS, INSURANCE\* & NBFC\*

VOL. 01/20

COMPANY REPORT

23 December 2017

## Tube Investments of India

Price: Rs 270

Ready for growth

BSE Sensex: 33,940

Nifty-50: 10,493

### FINANCIALS

|            | Sales   | OPM (%) | OP     | OTHER INCOME | PBIDT  | INTEREST | PBDT   | DEP    | PBT    | TAX   | PAT    | MI   | NP (Rs) | EPS* |
|------------|---------|---------|--------|--------------|--------|----------|--------|--------|--------|-------|--------|------|---------|------|
| 1703 (12)  | 4493.01 | 8.8     | 395.58 | 48.41        | 443.99 | 73.99    | 370    | 148.9  | 221.1  | 46.75 | 174.35 | 6.73 | 167.62  | 8.9  |
| 1803 (12P) | 4717.66 | 8.8     | 415.15 | 54.22        | 469.37 | 70.29    | 399.08 | 160.81 | 238.27 | 52.42 | 185.85 | 7.4  | 178.45  | 9.5  |
| 1903 (12P) | 5283.78 | 9       | 475.54 | 56.93        | 532.47 | 63.26    | 469.21 | 176.89 | 292.32 | 73.08 | 219.24 | 8.14 | 211.09  | 11.3 |

\*On current equity of Rs 18.75 crore; Face Value: Re1. (P): Projections. & Figures are as per new Indian Accounting Standard. Figures in Rs crore  
Source: Capitaline Database

### STOCK DATA

|                      |   |                |
|----------------------|---|----------------|
| BSE Code             | : | 540762         |
| BSE Group            | : | B              |
| NSE Code             | : | TIINDIA        |
| Bloomberg            | : | TIINDIA IN     |
| Reuters              | : | N/A            |
| Par Value            | : | Re 1           |
| 52-week High/Low(Rs) | : | 308 / Rs 233   |
| Sector               | : | Auto Ancillary |

Tube Investments of India has demerged its manufacturing business comprising auto components and engineering products into one firm, and investments in financial services into a separate entity.

Post completion of restructuring exercise, TI Financial Holdings Limited (formerly known as Tube Investments of India Limited) holds investments in financial services business and Tube Investments of India Limited (formerly known as TI Financial Holdings Limited) carries the manufacturing business.

Post restructuring, the company is now a mobility-focused manufacturing company from the Murugappa Group, one of the oldest and most diversified business houses of India.

Post restructuring, TII will be focusing on manufacturing business and TI Financial Holdings Limited would cater to financial services.

### Focused on automotive, railways and industrial components

TII operates under three business divisions namely Engineering, Bicycles and Metal Formed Products. Besides, it also undertakes manufacture of industrial gears and design and manufacture of dies for automobile majors through a subsidiary and joint venture respectively.

Its restructured business interests span across products like steel strips, tubes and tubular components, bicycles and fitness products, chains for automotive and industrial applications, metal formed parts for automotive, railways, industrial gears and automotive dies.

It has a network of 17 manufacturing units located close to the major manufacturing hubs with Just In Time (JIT) supply capabilities. Its 5 depots and 35 warehouses located across the country give the extra comfort of serving customers effectively

### SHAREHOLDING PATTERN\*

| Category        | % of equity |
|-----------------|-------------|
| Foreign         | : 12.77     |
| Institutions    | : 15.48     |
| Corp Holding    | : 6.51      |
| Promoters       | : 48.8      |
| Public & Others | : 16.45     |
| Total           | : 100       |

\* as on 3/11/2017.  
Source: Capitaline Database

and efficiently. Strong distribution network of dealers, concept stores and outlets keep the company well placed to address both the urban markets as well as the hinterlands.

#### **Engineering division—new precision steel tubes plant set to go on stream from early FY19**

The Engineering Segment of the Company consists of cold rolled steel strips and precision steel tubes viz., Cold Drawn Welded tubes (CDW) and Electric Resistance Welded tubes (ERW). These products primarily cater to the needs of the automotive, boiler, bicycle, general engineering and process industries. The company is further engaged in the manufacture of large diameter welded tubes mainly for non-auto application which are largely imported.

It is the only manufacturer with 4 plants proximately located to customers in key geographies. Value-added products contributed to 12% of overall tube sales in FY17.

In FY 2017, Revenue of Engineering division grew by 14%, Tubes exports grew by 85% and Large Diameter plant tubes volume grew by 24%.

In the supplies to the auto industry, the company continued to have lion's share of the market in the precision steel tube industry. In order to meet the growing needs of the auto sector, the company laid the foundation in March 2017 for setting up a new plant to make precision steel tubes at Rajpura with a capacity of 11,000 tons of tubes per annum. The estimated capex of the project is Rs 77 crore and is expected to go on stream from early FY19

In FY 2017 this division achieved a steep jump in exports with major growth from its supply of precision steel tubes to discerning customers in the ASEAN region.

The revenue of the division grew by 14% and PBIT rose 54%.

#### **Bicycles- Demand set to recover**

In Bicycles, it manufactures and markets a wide range of bicycle brands, fitness equipment and accessories. It is the second largest bicycle manufacturer in India catering to wide range of consumer segments. The bicycle range include standard commute bicycles to premium bicycles for kids, the health conscious, the urban commute and performance cycling. Its brands command a leadership position in India. It is one of the major bicycle suppliers for various Government schemes in the form of institutional orders.

It is Pioneer in retail through its retail formats of Track and Trail Urban, Track and Trail Sport and BSA Hercules Rural outlets. Bicycle portfolio has leading brand BSA and Hercules in the standard segment and Roadeo and Montra in the premium segment.

The bicycle industry volumes in the trade segment dropped 11% in FY 2017, while the division's volume dropped 13%. This drop was largely due to slump in domestic demand accentuated by demonetisation. The division had good success with performance bicycles where the growth was 30%.

The product development activity also gained momentum with the launch of 68 new models and 40 refreshes in various segments. The expansion programme of the exclusive retail stores, 'Track and Trail' continued by establishing 35 new stores making a total of above 100 such stores.

Exports grew by 76%. The new Plant set up at Rajpura was getting its production steadily scaled up.

In FY 2017, the overall revenue dropped 9% and PBIT by 55%.

Bicycle industry is set to recover as demonetisation and GST blues get over and new demand avenues emerge from Bicycle sharing companies entering Indian markets and fitness markets recover domestically as well as globally.

#### **Metal Formed Products - While FY 2017 started with a good momentum, there was a slowdown in the second half due to demonetisation**

Automotive & industrial chains, fine blanked products, stamped products, roll-formed car doorframes and cold rolled formed sections for railway wagons and passenger coaches constitute the Metal Formed Products segment.

This division is a preferred supplier in India and across the globe for manufacturing safety-critical components for automotive industry.

The domestic two wheeler and passenger car industry grew by 7% and 4% respectively. While FY 2017 started with a good momentum, there was a slowdown in the second half due to the impact of demonetisation.

This division grew by 15% in industrial chain volumes and auto chain volumes were flat. The company maintained leadership position in these segments.

The fine blanking division continued to get its product approved by global majors. In FY 2017, the company put lot of efforts into enhancing capability of equipment and people.

The doorframe business did well with a volume increase of 6%. The division continues to get qualified for supply of doorframes for new models of cars in FY19.

Its key customer awards included Fine Blanking Quality Award and TPM Excellence Award from Bajaj Auto, Quality Commitment (Zero Defect) Award from Autoliv, Fine Blanking Quality Award from Maruti Suzuki India, SQEP Gold Award by Caterpillar for supply of Industrial chains and Excellence in Part Development Award (Localisation) from Lear Corporation.

Business for Automotive segment includes

Two wheeler drive and timing chains, sprockets for Auto-OEMs and After-Market demand

Doorframes and fine blanked components

Non-Automotive segment includes:

Chains engineered for a range of industrial applications catering to both domestic and export demand

Railway sections for passenger coaches and goods carry wagons

### Agri-implements

The company is a leader in the domestic market in automotive drive and cam chains and industrial chains and is a preferred supplier for roll-formed doorframes in India.

This division has 10 manufacturing units and 14 warehouses, strategically spread in close proximity to automotive and industrial hubs of India with capability to service JIT

Its flagship Diamond, Razer and Rombo brands are trusted for their quality and consistency.

### Restructuring over, ready for growth

With a strong footing across divisions, TII caters to a wide array of sectors. In line with its manufacturing prowess, post restructuring, the company will be focusing on manufacturing business and TI Financial Holdings Limited would cater to financial services.

Heralding a new chapter in the company's history, the restructuring would not only bolster TII's prospects as a pure play manufacturing enterprise in the domestic market but also further consolidate its efforts to be the preferred supplier for export markets.

Going forward, its competitive advantages of high-quality operational and technical expertise, strong relationship with customers and unique positioning to gain from the growth of both two wheelers and four wheelers will cement its position in India.

Its novel approach towards enhancing productivity and adding value-added products in the portfolio will prove positive.

As a distinct manufacturing enterprise that is fresh out of restructuring, the company would be able to channelise resources into boosting technical and operational efficiencies. It aims to achieve goal by leveraging focus in the areas of product research and development, project planning, technology and innovation.

### Subsidiaries

Its subsidiary, Shanthi Gears Limited is steadily improving its top and bottomlines with a growth of 12% and 23% during FY17. The company's focused efforts in specific segments has enhanced its order book position to Rs 112 crore by end of March 2017 against Rs 106 crore. The company continues to acquire new capabilities and technologies required to provide higher value added products and services. SGL continued to look at enlarging its market presence, create a robust channel, enhance its process capabilities and launch new products to meet the growing expectations of customers.

In the case of Financiere C10 SAS (FC 10), the topline remained flat due to sluggish conditions in Europe. Significant work was done during the year in the areas of cost reduction and consolidation of its warehousing to create a new logistics platform that would enhance customer service. Specific resources were deployed for market expansion. These initiatives are expected to yield good results in FY18.

TTPL is a joint venture of the Company with M/s. Tsubamex Company Limited, Japan to engage in the business of design and engineering of sheet metal dies and fixtures and providing related services. The Company holds 75% of TTPL's equity capital.

TI Tsubamex India Private Limited commenced manufacturing in 2016. The company had a healthy order book of Rs 25 crore in March 2017 to serve very demanding customers seeking world class product quality. The company's products delivered have been well received by the customers. This company received excellent support provided by the joint venture partner, Tsubamex Company Limited, Japan, at various stages of engagement with the customers and helping in streamlining manufacturing operations of the company.

TI Absolute Concepts Private Limited (TIACPL) is the joint venture between the company and M/s. Absolute Speciality Foods Chennai Private Limited with regard to the operation of bicycle theme based restaurants under the concept of 'Ciclo Cafe'. In FY 2017, the company had invested an aggregate Rs 10 crore in the equity share capital of TIACPL, with the joint venture partner also making an equal contribution as envisaged under the Joint Venture Agreement. TIACPL has established Ciclo Cafes at Kotturpuram (Chennai), Hyderabad and Gurugram.

### Valuation

The country's automobile, railways and industrial sectors are expected to witness increasing demand in the coming years.

Bicycle industry is also set to recover as demonitisation and GST blues get over and new demand avenues emerge from Bicycle sharing companies entering Indian markets and fitness markets recover domestically as well as globally.

For FY'18, we expect the company to register consolidated sales and PAT of Rs 4717.66 crore and Rs 178.45 crore respectively. This gives an EPS of Rs 9.5 for FY18. The EPS is likely to rise to Rs 11.3 in FY19. At current market price of Rs 270, the scrip trades at 24.0 times expected FY19 consolidated earnings.

### TUBE INVESTMENTS OF INDIA: STANDALONE RESULTS

|                   | 1709 (6) | 1609 (6) | VAR (%) |
|-------------------|----------|----------|---------|
| Net Sales         | 2200.3   | 1960.9   | 12      |
| EBITDA            | 198.5    | 205.2    | -3      |
| PBIT              | 146.3    | 163.1    | -10     |
| Profit Before Tax | 118.6    | 121.9    | -3      |
| Profit After Tax  | 80.9     | 83.1     | -3      |
| EPS* (Rs)         | 8.6      | 8.9      |         |

\* On current equity of Rs 18.75 crore; Face Value: Re1. Figures in Rs crore (P): Projections. &: Figures are as per new Indian Accounting Standard  
Source: Company presentation