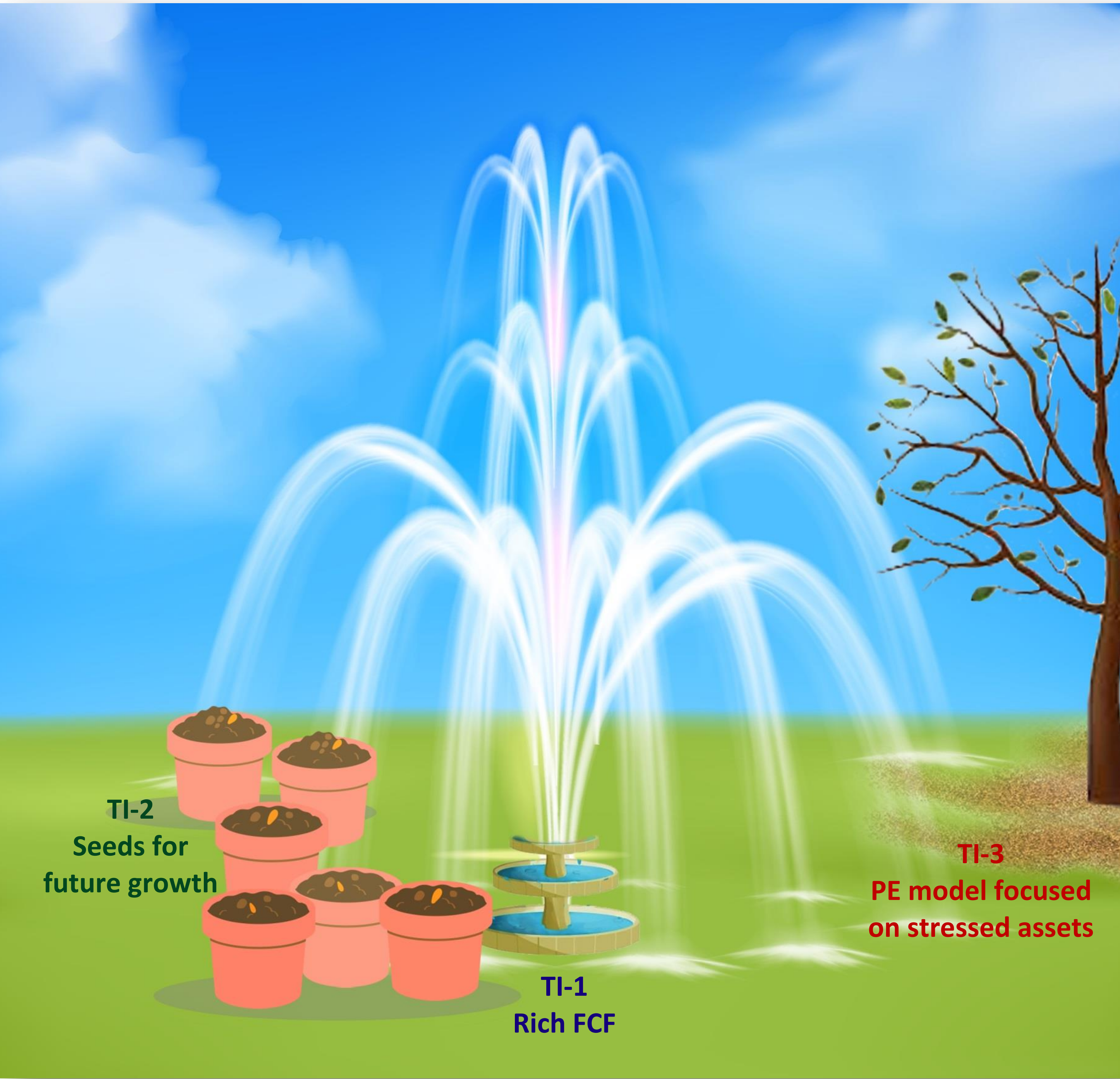
23 June 2022

Initiating Coverage | Sector: Automobiles

Tube Investments



Reinvesting cash flows for sustained growth

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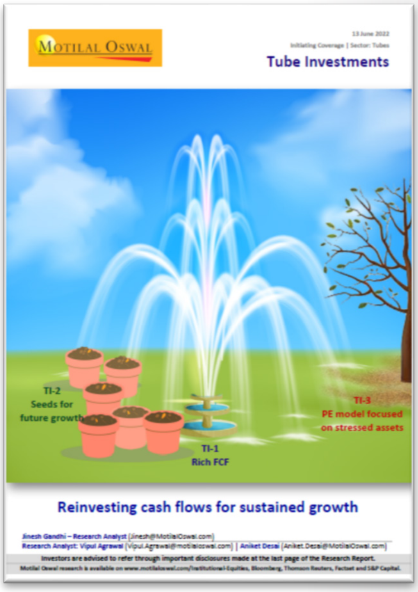


Tube Investments

Reinvesting cash flows for sustained growth

Tube Investments

BSE Sensex	S&P CNX
52,266	15,557

CMP: INR1,516 TP: INR1,900 (+25%) Buy

Stock Info

Bloomberg	TIINDIA IN
M.Cap.(INRb)/(USDb)	294.5 / 3.8
52-Week Range (INR)	2021 / 1065
1, 6, 12 Rel. Per (%)	-17/-3/14
12M Avg Val (INR M)	296
Free float (%)	53.5

Financial Snapshot (INR b)

INR b	FY22	FY23E	FY24E
Sales	125.3	148.4	169.4
EBITDA	14.3	18.1	21.5
Adj. PAT	9.7	11.4	14.2
EPS (INR)	50.5	59.0	73.6
EPS Gr. (%)	205.6	16.9	24.7
BV/Sh. (INR)	159	200	250
Ratios			
RoE (%)	37.2	32.9	32.7
RoCE (%)	32.4	36.6	37.7
Payout (%)	10.1	10.9	11.2
Valuations			
P/E (x)	30.0	25.7	20.6
P/BV (x)	9.5	7.6	6.1
Div. Yield (%)	0.3	0.4	0.5
FCF Yield (%)	2.2	2.5	5.1

Shareholding pattern (%)

As On	Mar-22	Dec-21
Promoter	46.5	86.5
DII	14.3	5.0
FII	26.1	1.5
Others	13.1	7.0

FII Includes depository receipts

Reinvesting cash flows for sustained growth

Proven management strength amplifies growth drivers | Initiate with BUY

Tube Investments (TIINDIA) is a flagship company of the Murugappa group. It has a diversified range of products under its three verticals – engineering (57% of S/A FY22 revenue), metal forming products (19%), bicycles (15%) and others (9%). It is the market leader in manufacturing precision steel tubes under engineering vertical with ~60% market share in telescopic front fork suspension; it is a significant player in car door frames and the largest player in fragmented industrial chains segment (35% market share) under metal forming vertical. It is also the second largest player in bicycle business. **We initiate coverage on the stock with a BUY rating and a TP of ~INR1,900.**

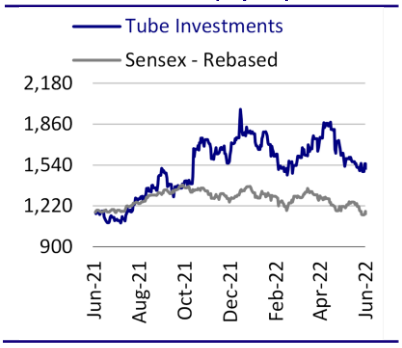
Sound framework to drive 25% PAT CAGR and grow beyond auto parts

- Under leadership of Mr Vellayan Subbiah, TIINDIA has articulated the TI way of growth, with objectives of: a) delivering 25% profit CAGR over long term and b) moving away from being an auto component supplier only.
- The TI way of growth has three components – TI-1 (existing businesses), TI-2 (a venture capital style model) and TI-3 (a private equity style model based on acquisitions).
- The underlying philosophy is to invest cashflows of the existing businesses (TI-1), which does not need much capital for growth, to: a) seed several new platforms for long-term growth (under TI-2; e-3Ws, e-tractors, Optic lens, TMT bars and Truck body building), and b) acquire stressed assets (under TI-3; acquired CG Power in Nov'20).

TI-1: Multiple growth drivers to fuel 25% PAT CAGR over three years

- TI-1 businesses, core businesses of Engineering, Metal Formed Products, Cycles, and Others form the foundation of TI's growth framework as they are key growth drivers as well as providers of cashflows for investing in TI-2/3 strategy.
- Engineering business (~57% of S/A revenues) would see 16% CAGR (FY22-25E) fueled by: 1) recovery in underlying auto industry, 2) strong traction in exports-driven geographical and product portfolio expansion, 3) import substitution opportunity in large diameter tubes for non-auto segment, and 4) launching new products like stabilizing bar for PVs in export market.
- Metal Formed Products business is likely to clock ~13% CAGR (FY22-FY25E) led by: 1) recovery in 2W industry for OEM drive chain and timing chain businesses, 2) fine blanking products for PVs, and 3) new orders for railway coaches upgradation program and Metro projects.
- Cycle business (~15% of revenues) is estimated to post 10% CAGR driven by strong growth in exports, whereas Others segment (~9% of revenues) is estimated to report 22% CAGR driven by ramp-up in lens business and recovery in the industrial chains business.

Stock Performance (1-year)



- Over the next three years for the standalone business, we estimate strong revenue/PAT CAGR of 16%/25% over FY22-25, respectively.

TI-2: Seeding new platforms for the future growth

- Under its TI-2 strategy (VC model), TIINDIA is seeding new platforms for future growth. It plans to invest at least INR2b p.a. from its standalone free cashflows to seed new businesses that will lay down the foundation of future growth.
- So far, it has seeded five businesses viz: a) TMT bars, b) truck body building, c) optic lens for automotive industry, d) e-3Ws, and e) e-tractors. While we see good potential in optical lens, e-3Ws and e-Tractors, we believe ramp-up in these businesses (to make material contribution at consolidated levels) would take much longer time.
- Of the five businesses seeded, e-3W is at an advanced stage of commercialization (Sep'22 launch) and offers fairly large addressable market (pre-Covid 3W volumes of ~636k units in domestic and ~502k in exports – combined market size of USD1.8-2 p.a.).
- TIINDIA is evaluating optic lens business through pilot scale production by investing INR300m for 5-6m units p.a. capacity. It is currently focused only on the glass optic lens (and not entire module) for application in the automotive industry. The global automotive optic lens module is estimated to be USD27b opportunity by CY25, benefitting from increasing penetration of ADAS systems.

TI-3: Acquisition-led growth (PE model) | CG Power is already 33% of SOTP

- TI-3 is based on acquiring stressed assets in either existing line of businesses or new areas. However, the management has decided not to acquire by increasing the debt burden materially on sustainable basis.
- It has so far acquired only one asset – CG Power, which has already seen very good turnaround and is contributing ~33% to the SOTP for TIINDIA.

Valuation & View: Initiate coverage with a BUY rating

- TII offers diversified revenue streams, with strong growth in the core business (~25% CAGR), ramp-up in CG Power and optionality of new businesses incubated under TI-2 strategy.
- At consolidated level, we estimate revenue/EBITDA/PAT CAGR of ~15%/20%/ 20% over FY22-25, respectively, on a high base of FY22 where CG Power delivered robust performance. We estimate consolidated RoCE to improve by 470bp to 37.1% by FY25. We are not building in for any benefit from new ventures under TI-2 (except Lens business, which is part of Others) in our consolidated performance. Based on our DCF-based estimates, we see potential value of ~INR84 per share from e-3Ws and tractors businesses.
- The stock trades at 25.7x/20.6x FY23E/FY24E consol. EPS. **We initiate coverage on the stock with a BUY rating and a TP of ~INR1,900 (premised on Mar'24E SOTP, based on 30x for the standalone business and valuing listed subsidiaries at 20% HoldCo discount).**
- **Key risks:** a) 'Lean' program execution for margin improvement, b) TI-2 strategy execution in new business areas, c) sustained turnaround of acquisition under TI-3 strategy, and d) upside risk to CG Power estimates.

Story in charts

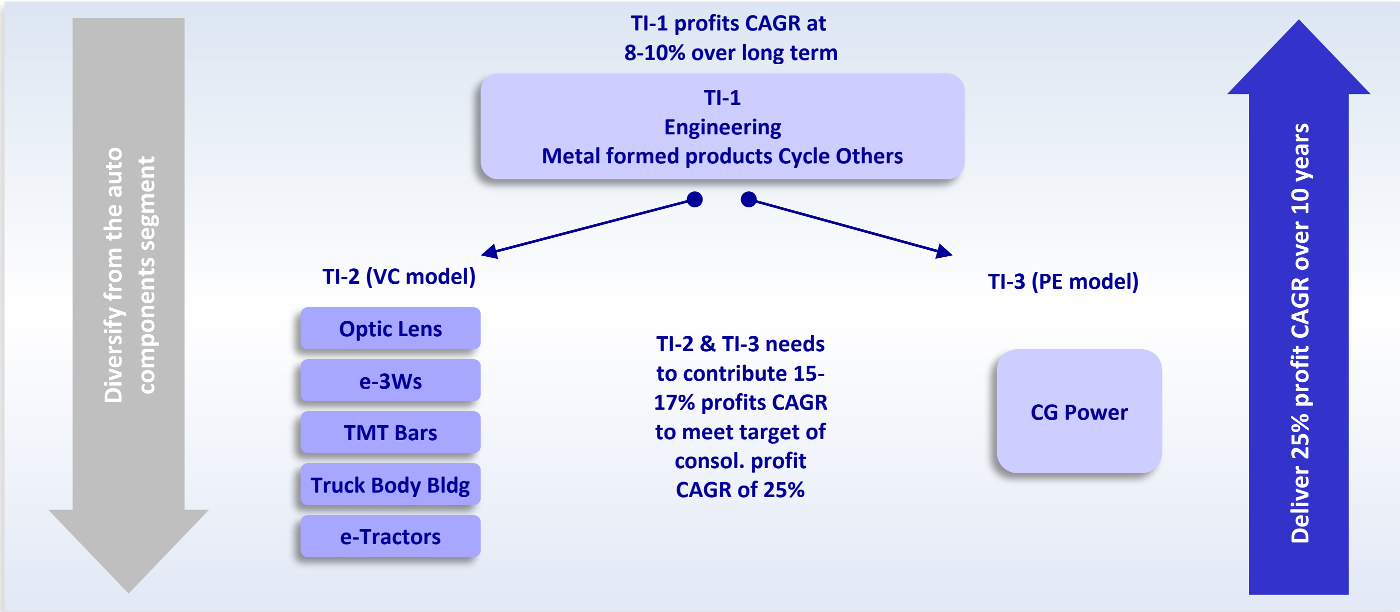
Engineering, metal formed would drive revenue for TIINDIA while Engineering, cycles and others would drive margins over next 4 years

Strategy	Segment	Sub-segment	Segment mix (%)	Key Competition	TIINDIA Market share (%)	FY22 (S/A) (%)			CAGR (%, FY22-25E)	
						Rev. Contbn	EBITDA Contbn	RoCE	Rev.	EBITDA
	Engineering	Tubular components CRSS Presicion tubes (including Large Dia tubes)	Autos: Non-Autos - 70:30 2Ws:4Ws - 55:45	Nippon Steel, Macks Tata Steel, JSW Goodluck Steel, Nippon Steel	60	57.1	63.4	53.9	16%	25%
TI-1 (Core)		Fine blanked parts		LGB, IFB		18.9	23.8	47.0	13%	14%
		Roll Formed parts								
	Metal Formed	Auto Chains	Autos:Non-Autos: Railways - 68:28:4	LGB, Diado	35					
		Railways		DLT	20-25					
		Agri Segments								
	Cycle			Hero, Atlas, Avon	24	15.1	9.1	45.3	10%	13%
	Others	Industrial Chain		Renold		6.4	6.5	47.0	13%	13%
		Others				2.4			47%	
	Optic Lens	Vehicle lens		Sunny Optics Sekonix, Kantatsu, Fujifilm						
TI-2 (VC Model)	e-3Ws	L5 segment		M&M, JS Auto, Piaggio						
	TMT Bars			Kamdhenu, Tata Steel						
	Truck Body Bldg			CEBBCO, DLT						
	Tractors	e-Tractors		Sonalika, Escorts						
		Power system	Transformer	GE, TBEA, BHEL, ABB	8	29				
			Switch gear	GE, ABB, Siemens, BHEL	15					
TI-3 (PE Model)	CG Power	Industrial system	High Voltage Motor, Traction motor	ABB, Siemens, BHEL	30	71		62.36	14%	17%
			Railway	BHEL, Saini, ABB	34					
			Drives		7					
	Shanti Gears	Industrial Gears box			20				22%	36%

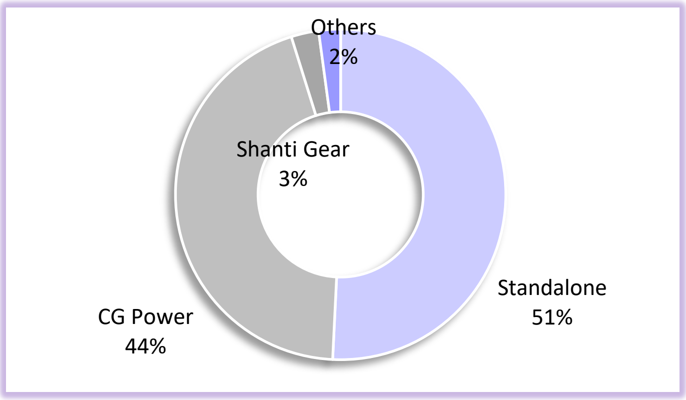
*Include TMT bars, Truck body building

Source: Company, MOFSL

TIINDIA – Framework for growth

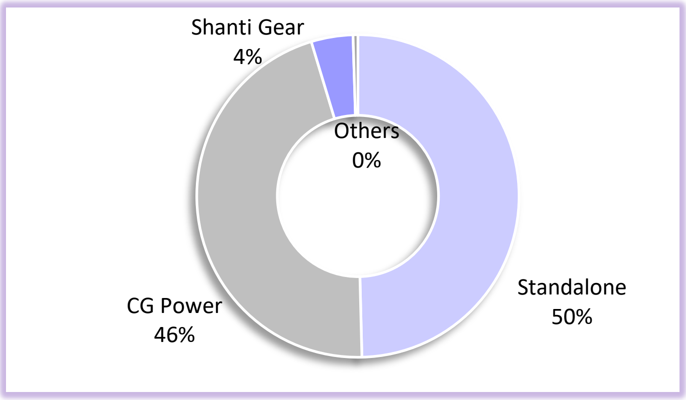


Consolidated revenue break-up (FY22)



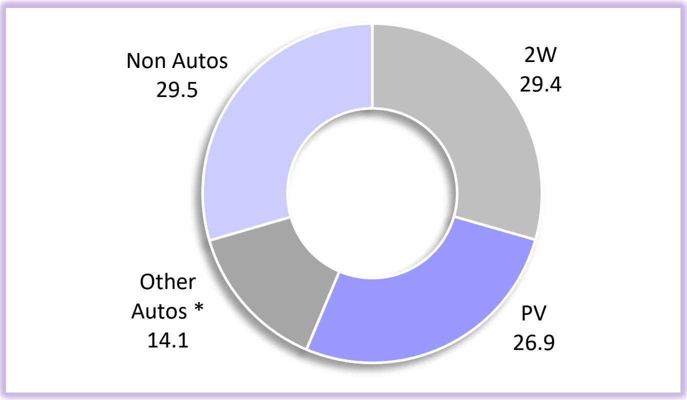
Source: Company, MOFSL

Consolidated EBIDTA break-up (FY22)



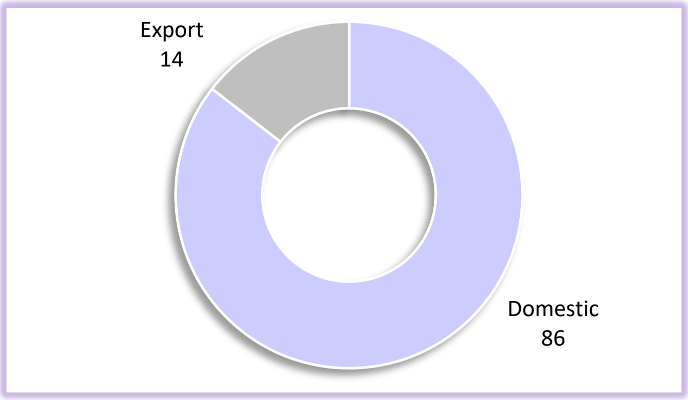
Source: Company, MOFSL

TIINDIAs revenue are well diversified w.r.t underlying industry (% of FY22 revenue)



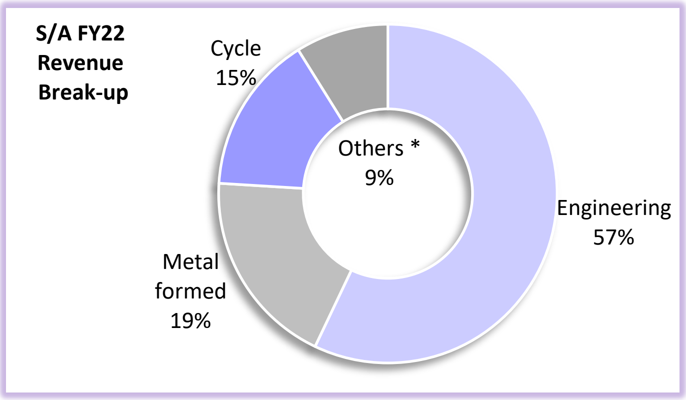
* Other Autos include CVs, tractors & off-highway vehicle; Source: Company, MOFSL

Exports currently are less, but expected to increase substantially (% of FY22 revenue)



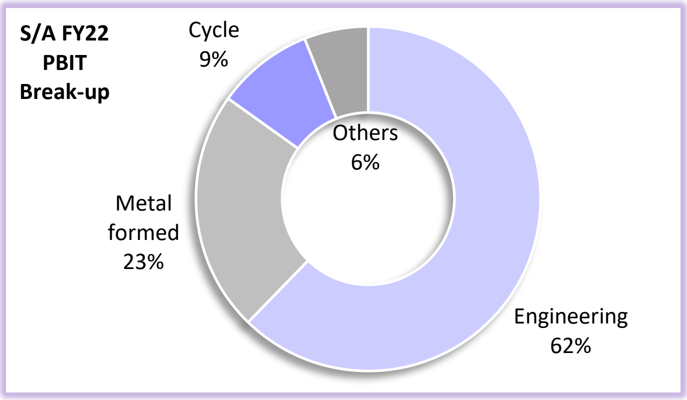
Source: Company, MOFSL

Standalone (TI-1) revenue break-up (FY22)



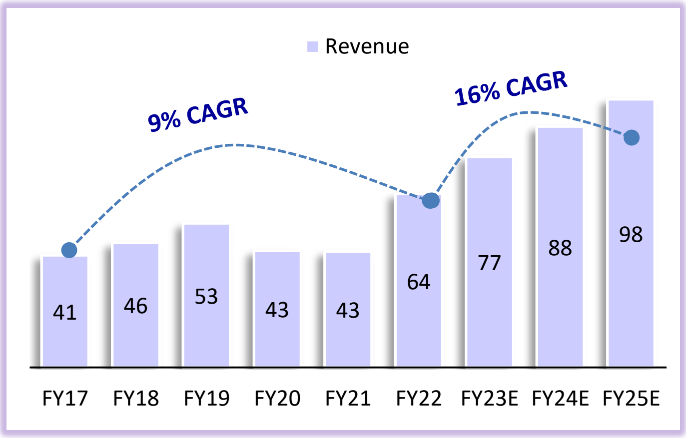
* Others include Industrial chain & new initiatives; Source: Company, MOFSL

Standalone (TI-1) PBIT break-up



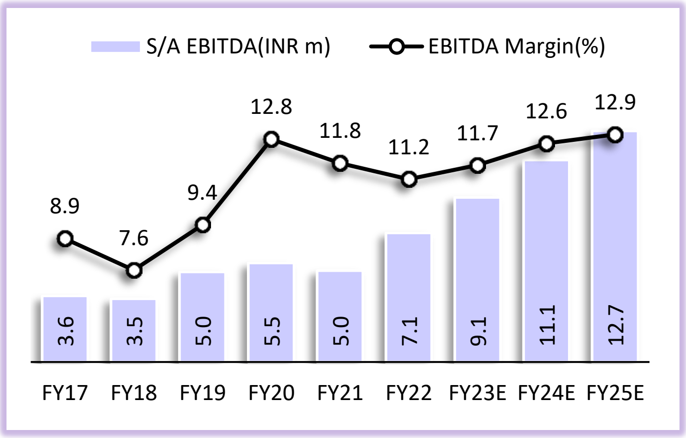
Source: Company, MOFSL

Revenue is likely to record 16% CAGR between FY22 and FY25E…



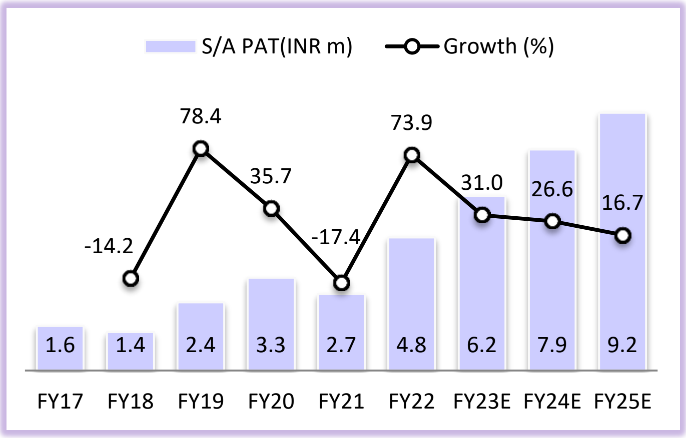
Source: Company, MOFSL

…while operating leverage to expand EBITDA margin…



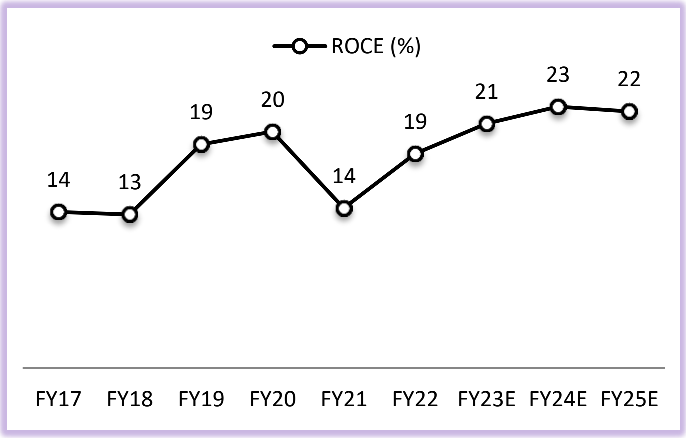
Source: Company, MOFSL

…driving PAT CAGR at 25%



Source: Company, MOFSL

ROCE would improve with margin expansion; however, any growth investment would completely change this equation



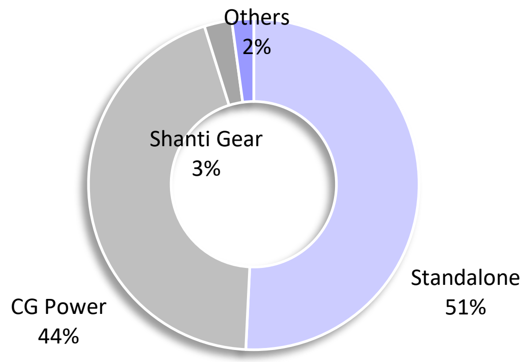
Source: Company, MOFSL

Sound framework for driving sustained growth

Targeting 25% profit CAGR and diversification beyond auto components

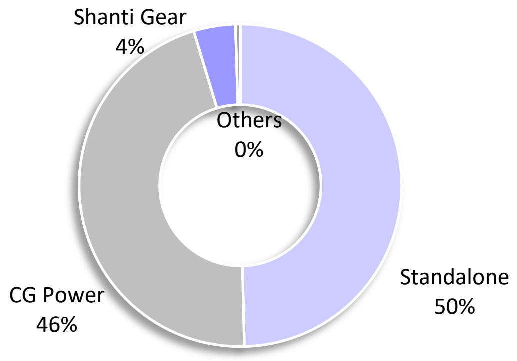
- Under leadership of Mr Vellayan Subbiah, TIINDIA has articulated the TI way of growth, with objectives of: a) delivering 25% profit CAGR over long term and b) moving away from being an auto component supplier only.
- The TI way of growth has three components – TI-1 (existing businesses), TI-2 (a venture capital style model) and TI-3 (a private equity style model based on acquisitions). The underlying philosophy is to invest cashflows of the existing businesses (TI-1), which does not need much capital for growth, to: a) seed several new platforms for long-term growth (under TI-2; e-3Ws, e-tractors, Optic lens, TMT bars and Truck body building), and b) acquire stressed assets (under TI-3; acquired CG Power in Nov'20).
- **TI-1 – organic growth in the core businesses**: According to the management, the existing business profits would clock 8-10% CAGR in the long term, driven by 6-9% revenue CAGR and supplemented by margin expansion. Over the next three years, we estimate strong revenue/PAT CAGR of 16%/25% over FY22-25E. The key drivers of strong revenue growth in core businesses would be a) ramp-up in exports in all the three businesses, b) large diameter tubes in Engineering, and c) fine blanking & Railways in Metal Formed.
- **TI-2 – seeding new platforms for the future growth (VC model)**: TIINDIA plans to invest at least INR2b p.a. to seed new businesses that will lay down the foundation of the future growth. Till now, it has seeded five businesses viz a) TMT bars, b) truck body building, c) optic lens for automotive industry, and d) e-3Ws and e) e-tractors. While we see good potential in optical lens, e-3Ws and e-Tractors, we believe ramp-up in these businesses (to make material contribution at consolidated levels) would take longer time.
- **TI-3 – Acquisition led growth (PE model)**: The third piece in TI way of growth is based on acquiring stressed assets in either existing line of businesses or new areas. However, the management has decided not to acquire by increasing the debt burden materially on sustainable basis. It has so far acquired only one asset – CG Power, which has already seen very good turnaround. Shanthi Gears' acquisition (in Jul'12) was done much before the TI way of growth strategy was adopted.

Exhibit 1: Consolidated revenue break-up (FY22)



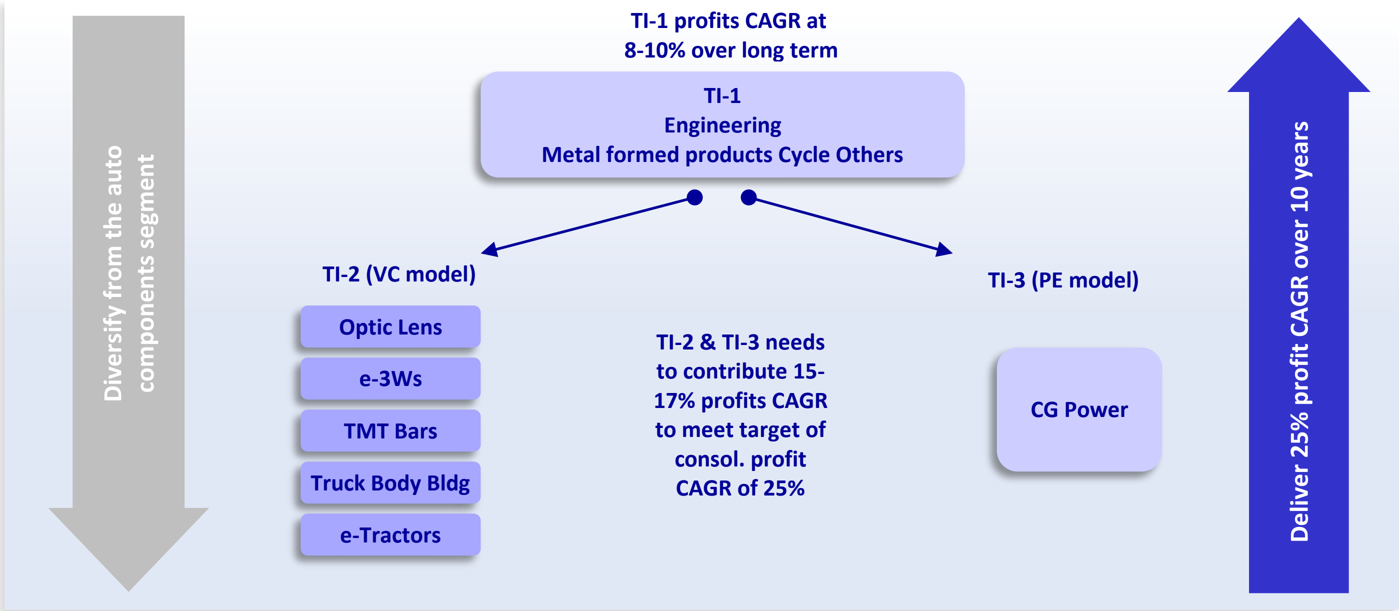
Source: Company, MOFSL

Exhibit 2: Consolidated EBIDTA break-up (FY22)



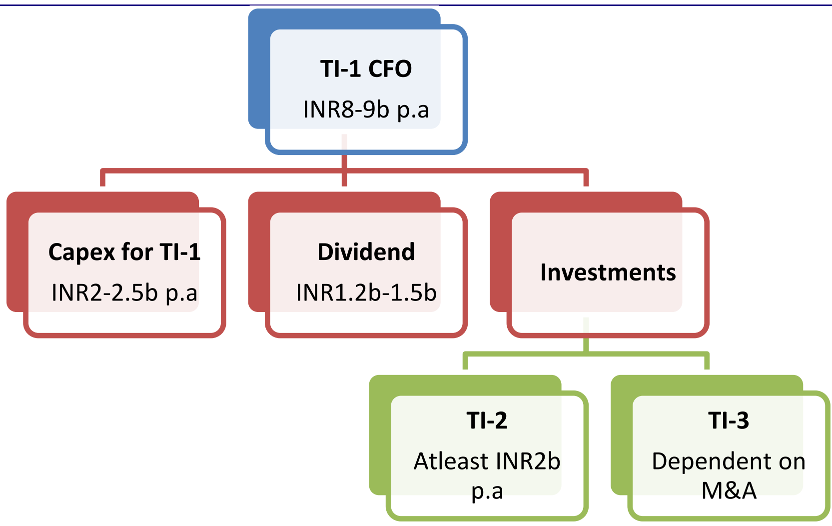
Source: Company, MOFSL

TIINDIA – Framework for growth



Source: Company, MOFSL

Exhibit 3: TIINDIA plans to invest free cashflows of TI-1 to create new growth platforms



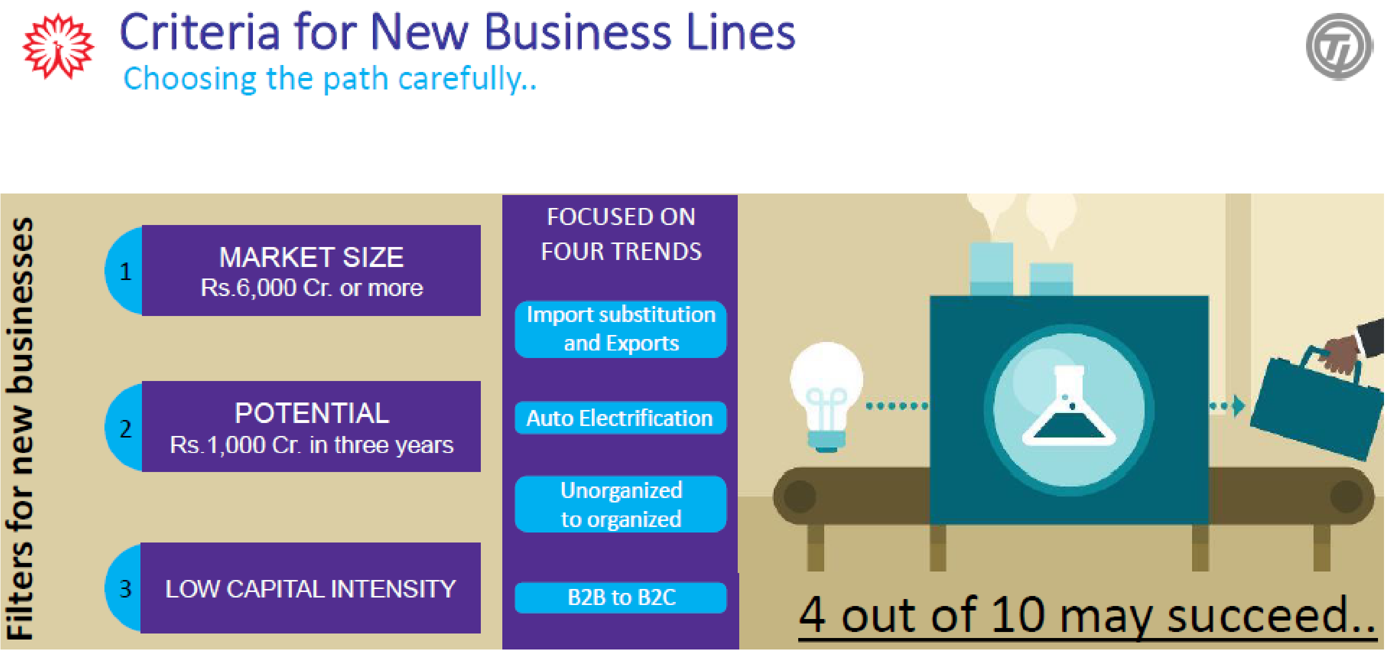
Source: Company, MOFSL

Exhibit 4: TI-1 businesses growth drivers

	Low growth (<5%)	Medium Growth (5-15%)	High Growth (>15%)
Engineering	NA	CRSS Precision Steel Tubes	Exports Large Dia Tubes
Metal Formed Product	OEM drive chain OEM timing (CAM) chain	Door frames Replacement Drive Chain	Fine blanking Railways
Cycles	Domestic	NA	Exports
Others	NA	Industrial Chain	Optic Lens for Autos

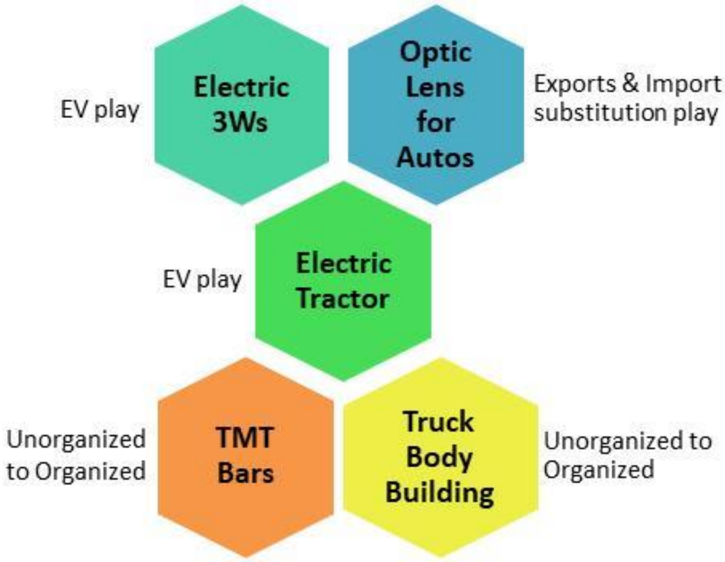
Source: Company, MOFSL

Exhibit 5: TI-2 and TI-3 - Criteria for new business lines



Source: Company, MOFSL

Exhibit 6: TI-2 has so far seeded five businesses for future growth

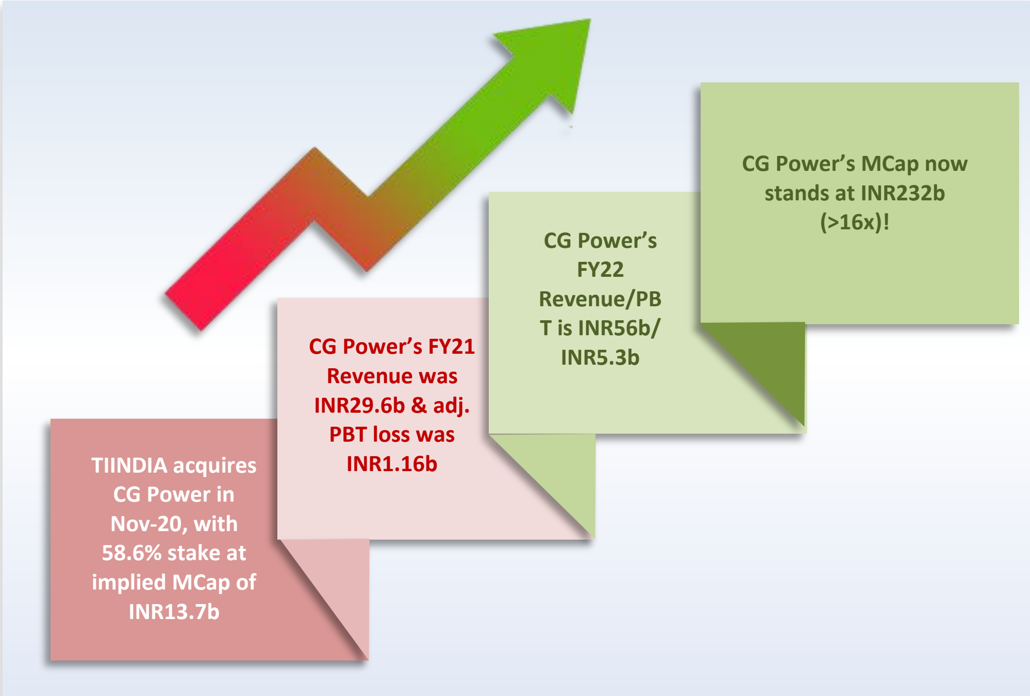


Source: Company, MOFSL

Exhibit 7: TI-3 inorganic approach is based on conservative criteria

Source: Company, MOFSL

Exhibit 8: CG Power (acquired under TI-3 strategy) has already turnaround



Source: Company, MOFSL

TI-1: Multiple growth drivers in place to fuel 25% PAT CAGR

Engineering & metal formed to drive growth, including exports

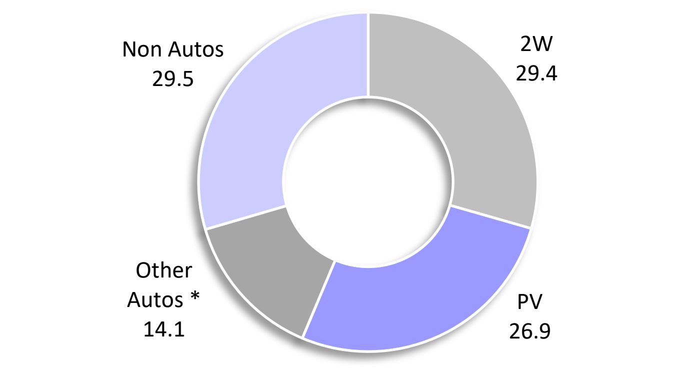
TI-1 businesses, core businesses of Engineering, Metal Formed Products, Cycles and Others, forms the foundation of TI's growth framework as it is key driver of growth as well as provider of cashflows for investing in TI-2/3 strategy. Over the next three years, we estimate strong revenue/PAT CAGR of 16%/25% over FY22-25, respectively. The key drivers of strong revenue growth in core businesses would be a) ramp-up in exports in all the three businesses, b) Large diameter tubes in Engineering, and c) Fine blanking & Railways in Metal Formed.

- Engineering business, the largest contributor with ~57% share in FY22 standalone revenue, consists of Cold Drawn Welded precision tubes (CDW), Electric Resistance Welded tubes (ERW), cold rolled steel strips (CRSS) and tubular components (incl. large diameter tubes). It enjoys market leadership in CDW tubes with over 60% market share. It is expected to grow the fastest among all segments, at 16% CAGR, during FY22-FY25 with domestic market delivering 14% CAGR and export market recording 20% CAGR. The growth would be driven by 1) recovery in underlying auto industry, 2) strong traction in exports driven geographical and product portfolio expansion, 3) import substitution opportunity in large diameter tubes for non-auto segment, and 4) new products like stabilizing bar for PVs in export market.
- Metal Formed Products business, a ~19% contributor to standalone revenue, comprises of automotive chain, door frames, fine blanked products and railway coaches. TIINDIA enjoys strong positioning in 2W chains (#2 player), door frames (~90% share with Hyundai) and railways (20-25% market share). This segment is likely to report ~12% CAGR during FY22-FY25E led by 1) recovery in 2W industry for OEM drive chain and timing chain business, 2) fine blanking products for PVs, and 3) new orders for railway coaches up-gradation program and Metro projects.
- Cycle/Mobility business consists of cycle business and will also house e-3W business upon launch in FY23. Cycle business contributes ~15% to standalone revenue and is expected to post ~11% CAGR during FY22-FY25E, propelled by ramp-up in exports (from 2.5% of volumes in FY22E to 5.5% by FY25E) whereas domestic volumes are estimated to clock 6% CAGR. It enjoys ~25% market share and is a #2 player in the domestic cycle industry. Under mobility business, it is preparing to launch an e-3W (L5 segment) in India, based on design from Korean company. We are not yet factoring in for any contribution from e-3Ws.
- Other business comprises of industrial chains and new initiatives (currently optic lens), and contributes 8.8% to standalone revenue. It is market leader in the industrial chains business with market share of 30-35%. The industrial chains business offers products for wide range of applications for both local and global markets. We estimate this segment to report 13% CAGR in the Industrial chains business and 47% CAGR in other new businesses.
- **Impact of EVs**: In its core business, it has limited exposure to powertrain components. Its Engineering business is largely fuel agnostic with only 5% exposure to ICE drivetrain and with light weighting technology, electrification poses more of an opportunity than a threat. In Metals Formed Products, auto

timing chains business (used in 2Ws) would only be impacted, which is overall a very small part on business whereas drive chains would still be required.

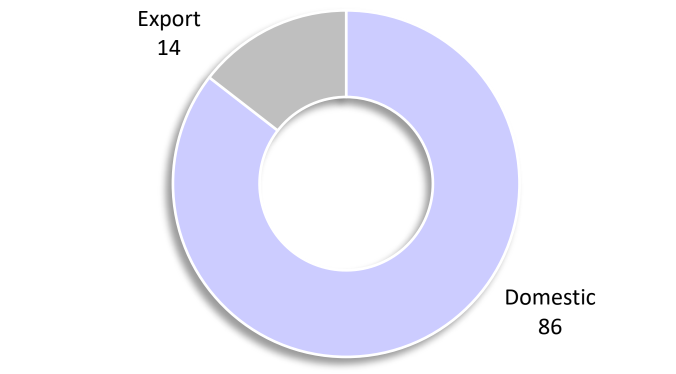
- **Estimate 25% PAT CAGR over FY22-25**: With TI-1 business revenue CAGR of 16% over FY22-25E and EBITDA margin likely to expand 180bp over FY22-25E to 12.9%, PAT CAGR is estimated at 25% over FY22-25. EBITDA margin expansion would be driven by a) better mix (higher exports), b) cost cutting initiatives under Lean program, and c) operating leverage.

Exhibit 9: TIINDIAs revenue is well diversified w.r.t underlying industry (% of FY22 revenue)



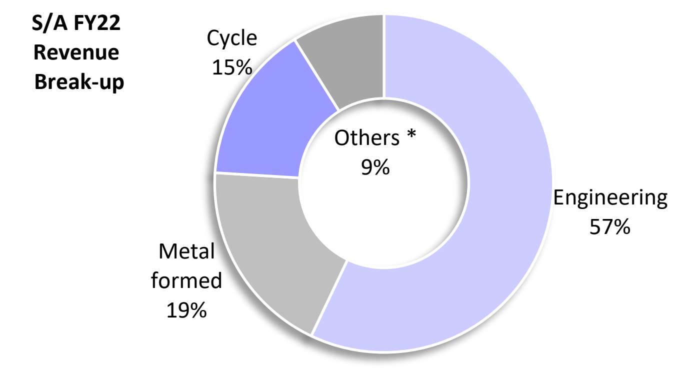
* Other Autos include CVs, tractors & off-highway vehicle; Source: Company, MOFSL

Exhibit 10: Exports currently are less, but expected to increase substantially (% of FY22E revenue)



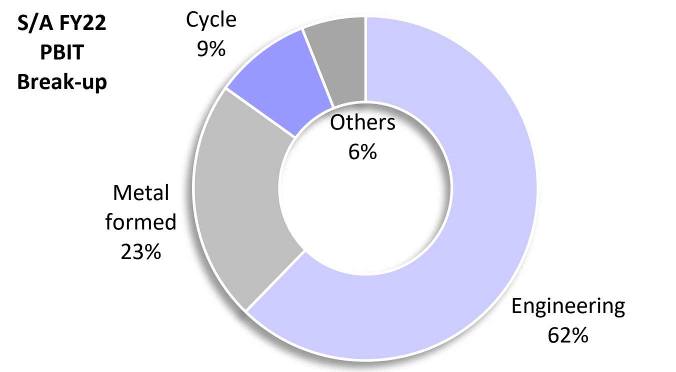
Source: Company, MOFSL

Exhibit 11: Standalone (TI-1) revenue break-up (FY22)



* Others include Industrial chain & new initiatives; Source: Company, MOFSL

Exhibit 12: Standalone (TI-1) PBIT break-up

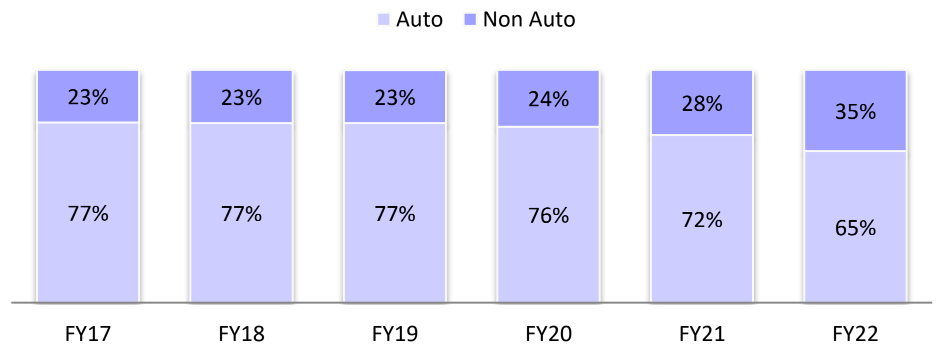


Source: Company, MOFSL

ENGINEERING BUSINESS

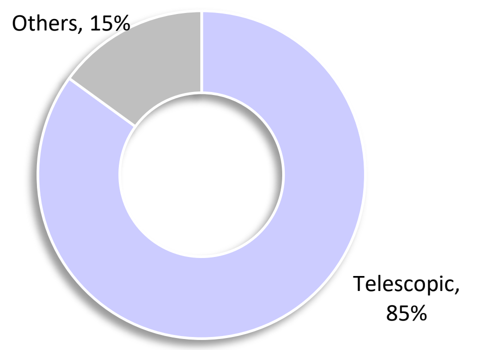
- Engineering business is largely focused on Autos (~70%, with equal split between 2Ws and PVs), and CV/off-highway vehicles (balance).
- TI has outperformed auto industry over last few years driven by expansion of product portfolio, increase in wallet share with customers and ramp-up in non-autos. While PV demand remains strong, 2Ws industry would drive growth with expected recovery after three years of down cycle.
- In 2Ws, the company is the market leader in telescopic front fork inner tubes and cylinder bore tubes for shock absorber and gas spring applications, and supplies to all major tier-1 suppliers.
- In PVs, it supplies multiple tubular and metal sheet-based child parts to PVs from the engineering segment.
- Large diameter tube (up to 15cms) in non-auto segment (construction equipment), started as import substitutes around three years back, would be one of the key growth drivers. It has very small presence in tractor segment, however, mandatory implementation (proposed but yet approved by the government) of roll-over-protection-system (ROPS) for tractors in India would open up good opportunity for TIINDIA.
- It is focused on expanding in global markets, and this is an important driver of growth. It currently exports to South East Asia (incl. China), EU and USA. Export share in revenue has risen to 20% in 4QFY22 (v/s 10% earlier) and going forward it expected to grow at 20%+ CAGR (v/s 15% CAGR earlier). The growth in exports would be driven by a) resolution of anti-dumping duty in the US in 4QFY21, b) ramp-up in large diameter tubes and c) new products such as stabilizer bar (currently under trials).

Exhibit 13: Non-auto segment contribution increased from 23% in FY17 to 35% in FY22



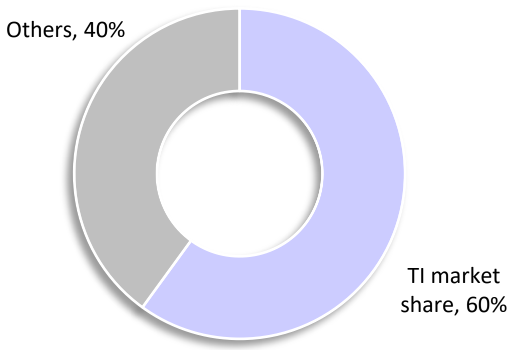
Source: Company, MOFSL

Exhibit 14: Telescopic front fork shock absorbers (normal and inverted) are used in ~85% of the 2Ws…



Source: Company, MOFSL

Exhibit 15: …and TIINDIA is the market leader with 60% market share in Telescopic Front Fork Tubes

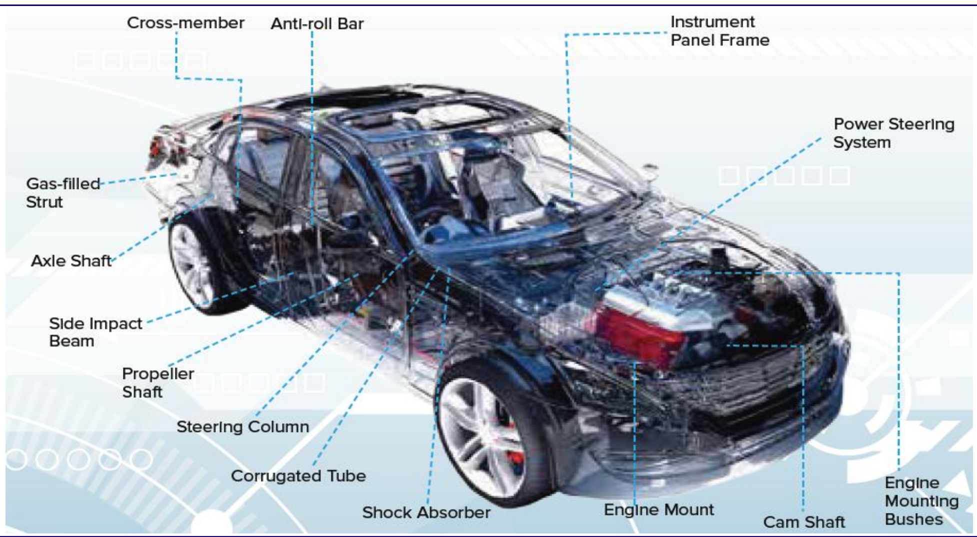


Source: Company, MOFSL

Exhibit 16: TIINDIA supplies all tubular products used in a 2W with highest market share in telescopic front fork tubes

Source: Company, MOFSL

Exhibit 17: TIINDIA Supplies multiple tubular and sheet metal based child parts to PVs in both domestic and export market

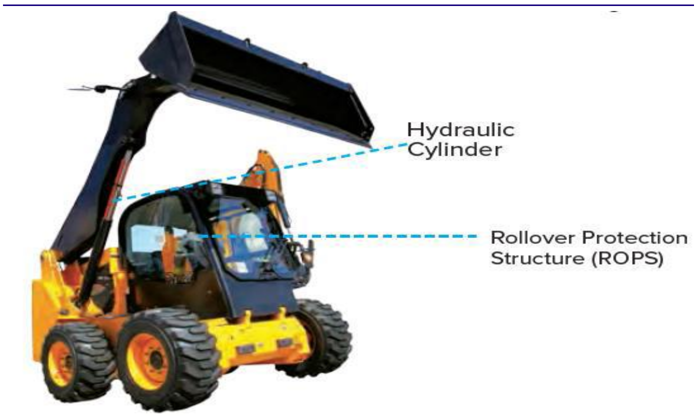


Source: Company, MOFSL

Exhibit 18: TIINDIA supplies multiple parts to all MHCV and large diameter tubes for hydraulics (used tipper trucks)

Source: Company, MOFSL

Exhibit 19: TIINDIA supplies large diameter tubes used in hydraulics of the commercial equipment

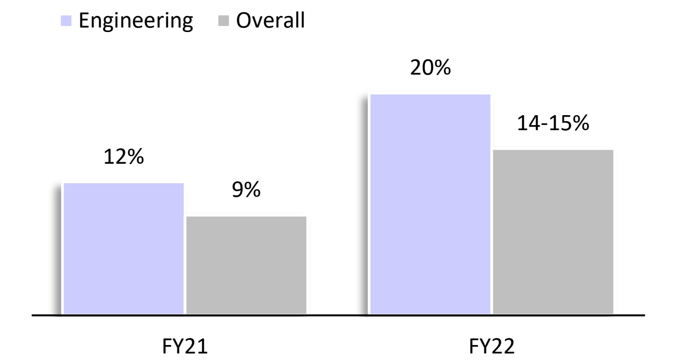


Source: Company, MOFSL

Exhibit 20: The expected ROPS in India would increase TIINDIAs' content per tractor

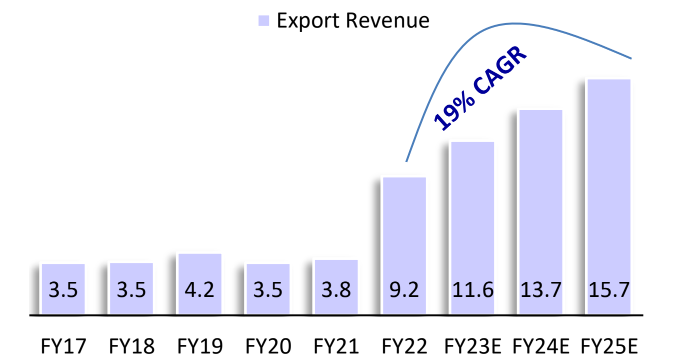
Source: Company, MOFSL

Exhibit 21: Exports are now bearing fruit of product launches and contracts won during last 2-3 years…



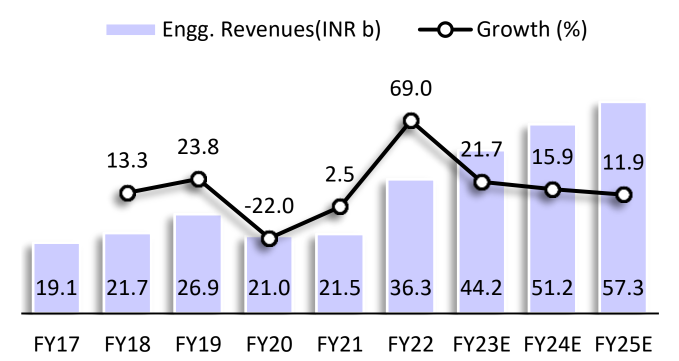
Source: Company, MOFSL

Exhibit 22: …and expected to grow faster with new products in pipeline and expansion to new geographies



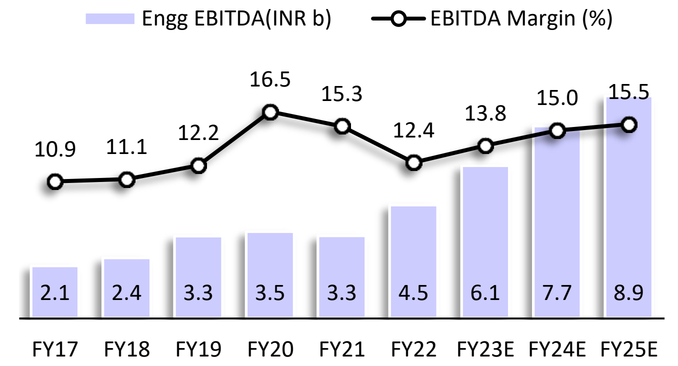
Source: Company, MOFSL

Exhibit 23: Engineering revenue growth was impacted by decline in underlying industries partially offsetting growth in non-auto business…



Source: Company, MOFSL

Exhibit 24: …margin improved with cost optimization measures

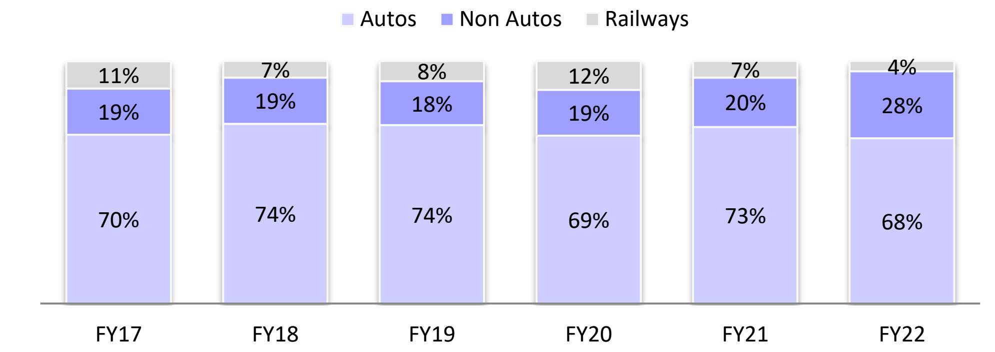


Source: Company, MOFSL

METAL FORMED PRODUCTS BUSINESS

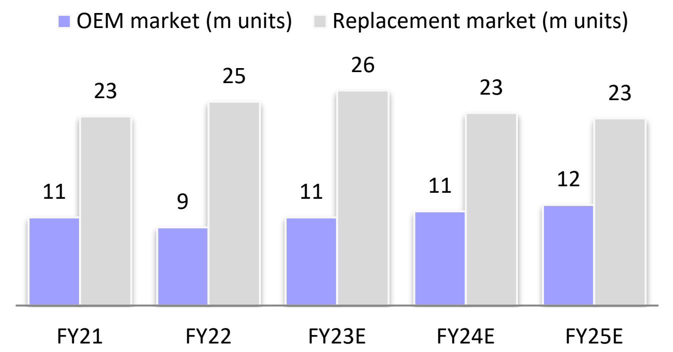
- **Metal Formed Product business is focused on Autos (85-90%, with 52-55% from 2Ws and 33-35% from PVs) and railways (balance). Prior to FY21, Industrial chains business was part of this segment.**
- **In 2Ws segment, it supplies drive chain and timing-chain to OEMs and after-market (in Diamond and Rombo brand). While it is consolidating its ranking as preferred supplier to OEMs, the large part of growth would be driven by increasing penetration in after-market. Deepening of channel presence in micro markets and enlarging geographic spread will drive growth in the aftermarket business.**
- **The door frame business is largely linked to Hyundai (~90% wallet share) and Kia (~10% wallet share), with scope to further increase share with Kia. Other OEMs use spot welding technology currently and opportunity for TIINDIA will open when these OEMs switch to roll formed door frames.**
- **Apart from door frames, it offers safety-critical parts and seating solutions in fine blanked division. It has seen significant market share gain in these components, after introducing it three years back.**
- **Railways coaches form a big opportunity as Indian railway is replacing steel coaches by stainless steel (~50k coaches). There are around five payers in the segment and TI has a market share of 20-25%. This project provides revenue opportunity INR 30b (estimated at 20% share) over the life of the project. This along with upcoming Metro projects provides great opportunity. In addition, it has completed the IRIS certification, which will enable it to supply globally in this segment.**

Exhibit 25: Metal formed business sees increased diversification in non-autos, but railway business momentum hit by Covid-19



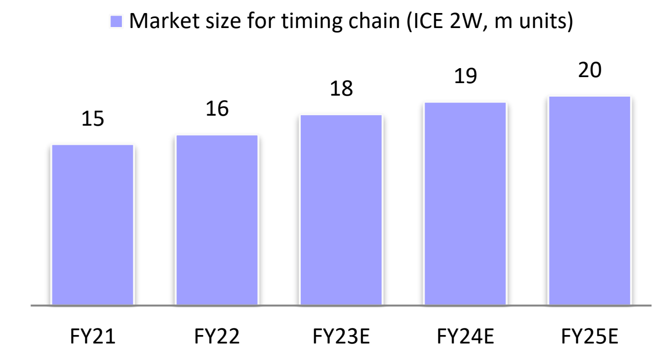
Note: Non-autos is Industrial chains, which is classified in Others from FY21; Source: Company, MOFSL

Exhibit 26: OEM to grow steadily, while replacement segment to decline in FY24E



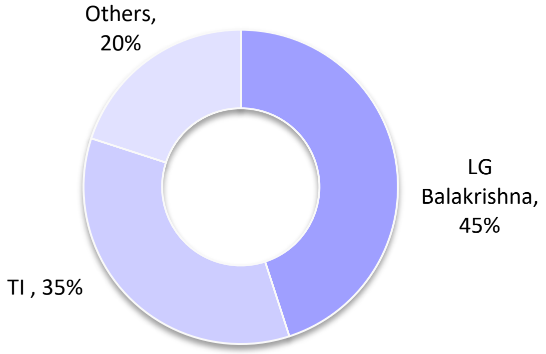
Source: Company, MOFSL

Exhibit 27: Timing chain growth is pegged ICE 2W growth



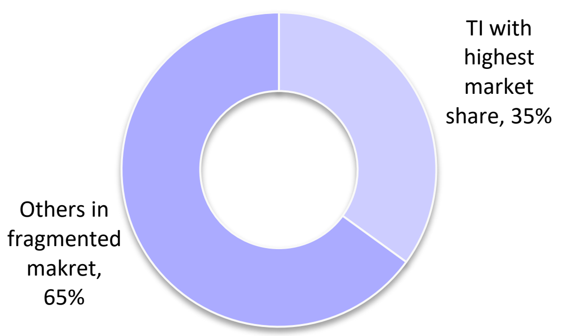
Source: Company, MOFSL

Exhibit 28: TIINDIA is the 2nd largest player in the replacement market of drive chains



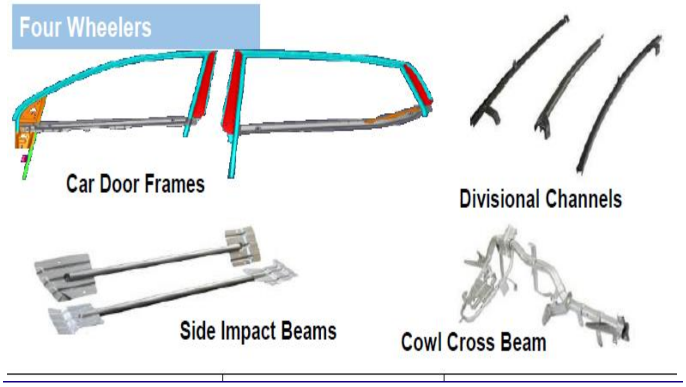
Source: Company, MOFSL

Exhibit 29: TIINDIA is market leader in highly fragmented industrial chain business



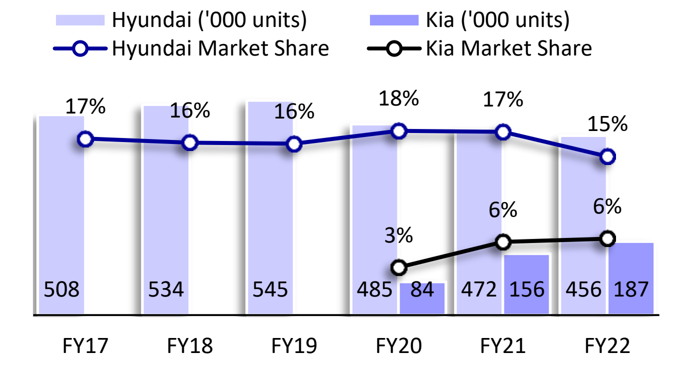
Source: Company, MOFSL

Exhibit 30: Roll formed products



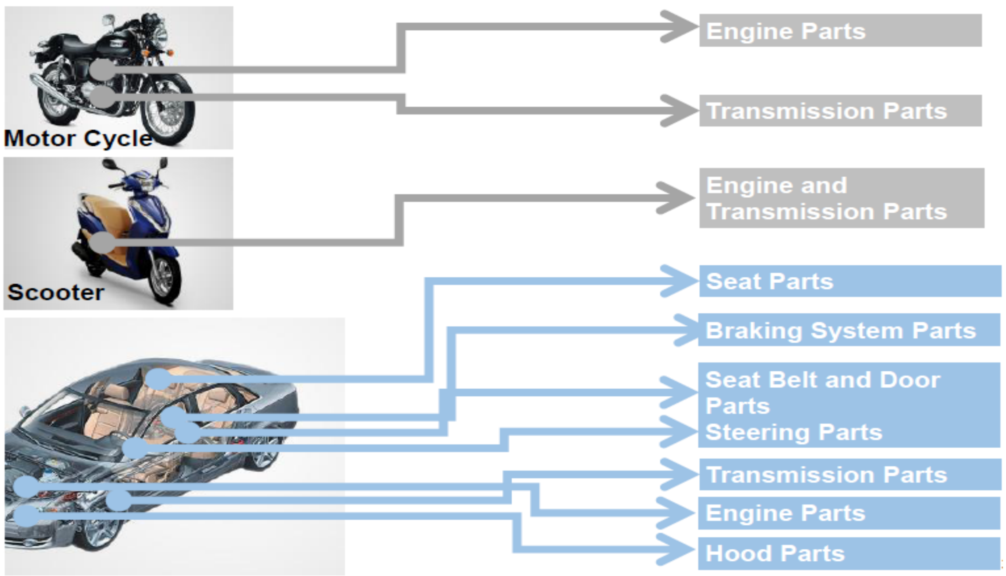
Source: Company, MOFSL

Exhibit 31: TII's growth in door frame business is pegged with volume growth of Hyundai and Kia



Source: Company, MOFSL

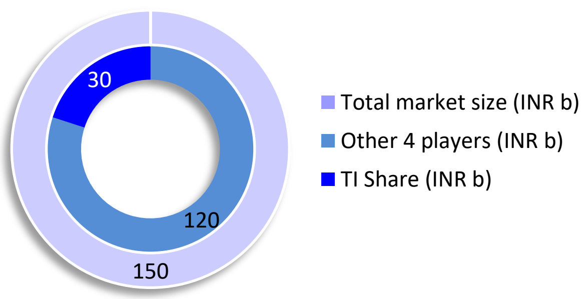
Exhibit 32: Fine blanking 2W business will be impacted by electrification



Source: Company

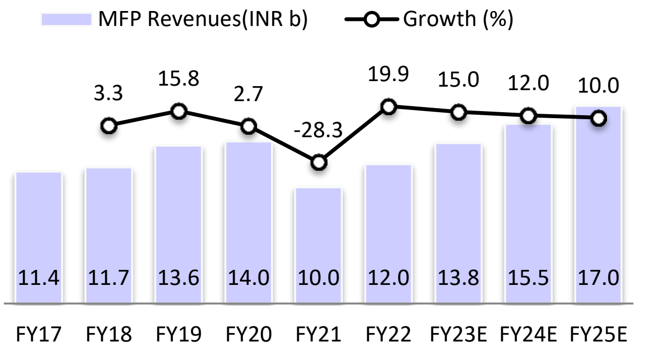
Exhibit 33: Indian railways project of modernization of 50k wagons present large opportunity for TIINDIA

Source: Company, MOFSL



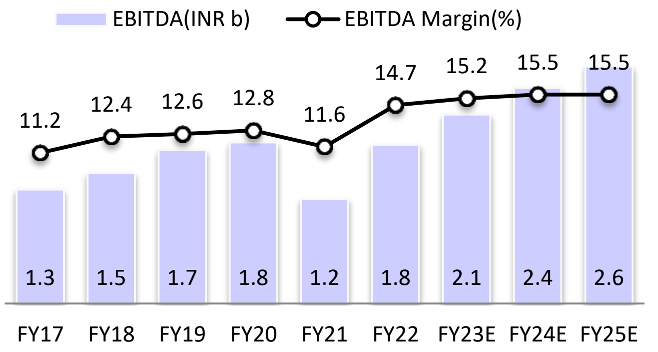
Source: CEBBCO, Company, MOFSL

Exhibit 34: Metal forming revenue declines with underlying industry



Source: Company, MOFSL

Exhibit 35: Adverse operating leverage and commodity led to margin contraction.

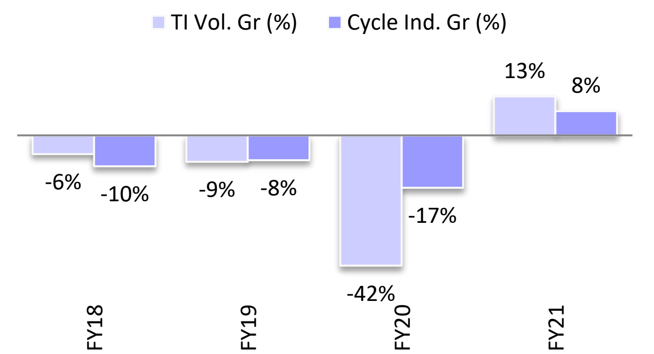


Source: Company, MOFSL

MOBILITY BUSINESS

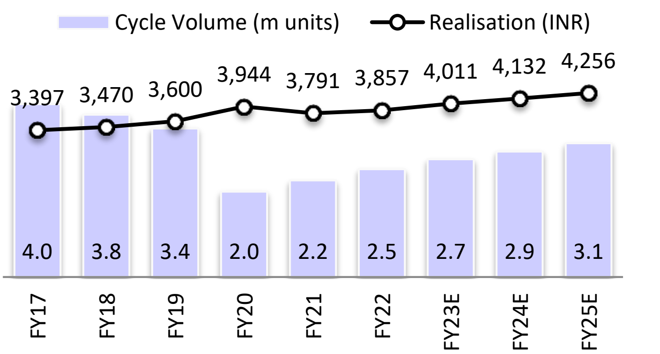
- The Mobility business currently consists of just cycles. However, the upcoming launch of e-3Ws will be under this division.
- Cycle segment has reinvented itself by exiting from low margin industrial business in FY19. The unwinding of working capital led to increase in profitability.
- TI has strong presence 700+ retail format stores covering Urban with 'BSA', Rural with 'RHB' and lifestyle segment with 'Track and Trail'. It has 12k+ touch points covering all the geographies.
- Strong brands like BS, Hercules, Ladybird, Montra in domestic market manages forefront across channels while it sells international brands like Bianchi, Schwinn, Cannondale, Ridley, GT and Mongoose through its exclusive retails.
- Though exports are at just ~3.6% of cycle revenue, management plans to scale exports up to ~15% in the medium term.

Exhibit 36: TIINDIA exited low-margin industrial cycle business in FY20…



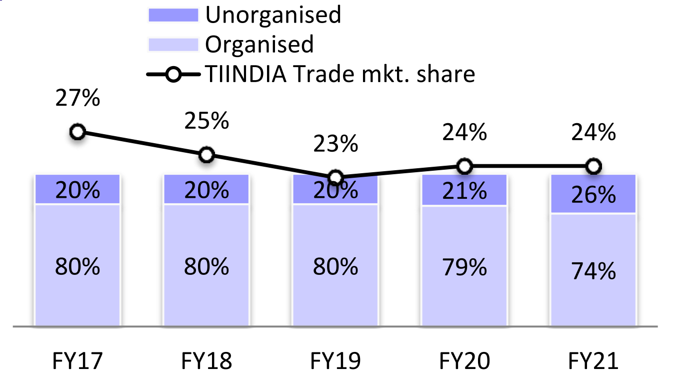
Source: Company, MOFSL

Exhibit 37: …resulting in sharp step-down in volumes in FY20



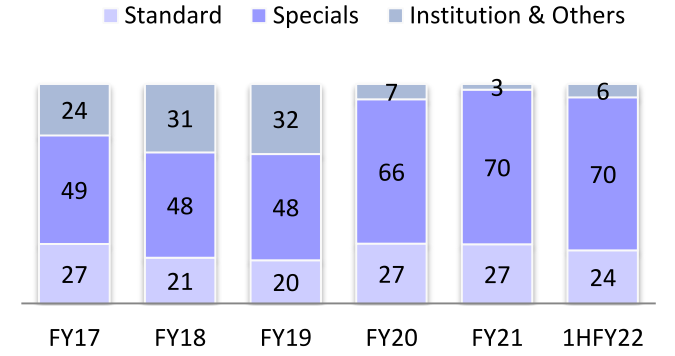
Source: Company, MOFSL

Exhibit 38: TI's market share in organized segment remain stable



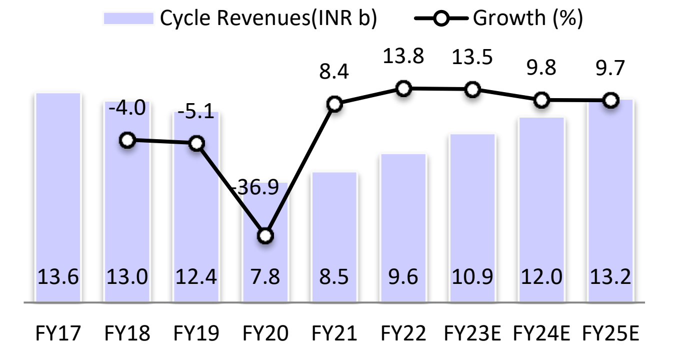
Source: Company, MOFSL

Exhibit 39: Contribution from Specials segment has been inching up



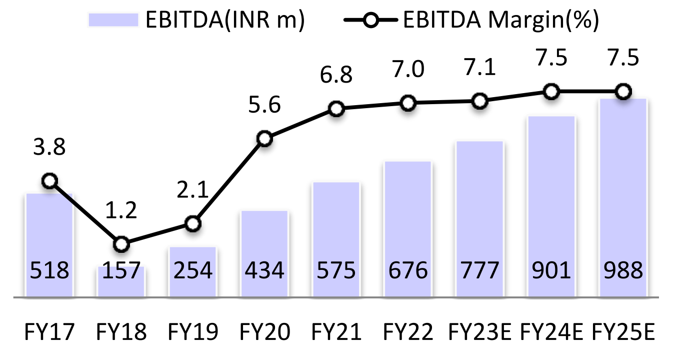
Source: Company, MOFSL

Exhibit 40: Exports to drive overall volume revenue CAGR of ~7% …



Source: Company, MOFSL

Exhibit 41: …and driving profitability with higher share of high-margin business and cost efficiencies



Source: Company, MOFSL

TI-2: Seeding new platforms for the future growth

Benefits of five seeded businesses to be back-ended

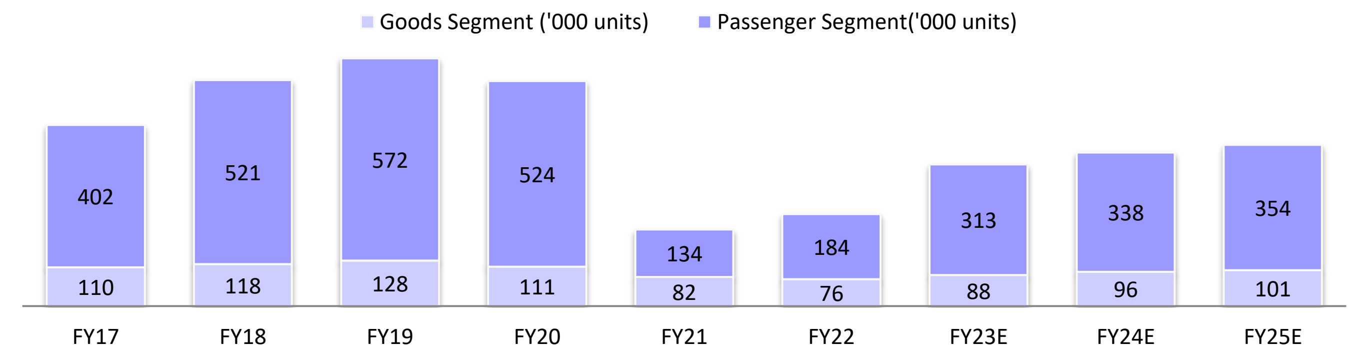
Under its TI-2 strategy (VC model), TIINDIA is seeding new platforms for future growth. It plans to invest at least INR2b p.a. from its standalone free cashflows to seed new businesses that will lay down the foundation of future growth. So far, it has seeded five businesses viz: a) TMT bars, b) truck body building, c) optic lens for automotive industry, d) e-3Ws, and e) e-tractors. While we see good potential in optical lens, e-3Ws and e-Tractors, we believe ramp-up in these businesses (to make material contribution at consolidated levels) would take much longer time.

- Of the five businesses seeded, e-3W is at advanced stage of commercialization (Sep'22 launch) and offers fairly large addressable market (pre-Covid 3W volumes of ~636k units in domestic and ~502k in exports – combined market size of USD1.8-2 p.a.). While there is no information on pricing or performance parameters, we believe that TIINDIA has a fair chance of converting the electrification opportunity as a major growth driver in medium to long term in the price sensitive L5 segment of 3Ws. Based on our expectation of EV penetration in 3Ws (~19% by FY27E) and TIINDIAs' market share of ~15%, we estimate e-3W potential value at ~INR9b (FY24E DCF-based).
- TIINDIA recently forayed into electric tractors by acquiring Cellestial E-Mobility in Jan-22. Cellestial has launched one model (equivalent to 27HP tractor) in Mar-20. While it is among early entrant into nascent electric tractor market, we believe electrification in agri tractors will take longer time due to very requirement of torque and in turn need for bigger battery. Based on our expectation of EV penetration in tractors (~2.5% by FY27E) and Cellestials' market share of ~20%, we estimate e-tractor potential value at ~INR7b (FY24E DCF-based).
- TIINDIA is evaluating optic lens business through pilot scale production by investing INR300m for 5-6m units p.a. capacity. It is currently focused only on the glass optic lens (and not entire module) for application in the automotive industry. The global automotive optic lens module is estimated to be USD27b opportunity by CY25, benefitting from increasing penetration of ADAS systems. TIINDIAs' evaluation has got adversely impacted by Covid. It is awaiting product certification from the anchor client post which it will ramp-up production. Lens business is dominated by the Chinese, Korean and Japanese players accounting for ~80% of the worldwide shipments. Our assessment is that the optic lens business might not move the needle for TIINDIA even if it increases capacity by 10x at commercial scale (implying peak revenue of INR2.3b at realization of USD0.5/unit of lens).
- In our view, the other two businesses of TMT bars and truck body building offer limited scope to substantially scale-up and contribute to TIINDIAs' performance in the foreseeable future.

E-3W BUSINESS

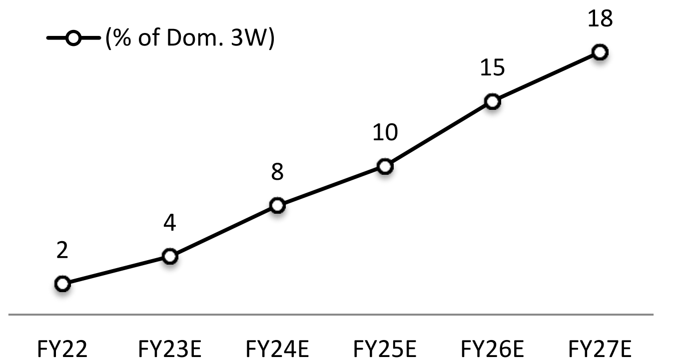
- **TIINDIA will be launching its e-3W (in L5 segment) by Sep'22. Initially it will be launched in southern India and then then gradually expanded to other regions in India.**
- **It has partnered with a Korean company for designing and it is using in-house technology for the e-3W. It is working with multiple vendors for parts to get best propositions for the products.**
- **Our view: While there is no information on pricing or performance parameters, we believe that TI has a fair chance of converting electrification opportunity as a major growth driver in medium to long term in the price sensitive L5 segment of 3Ws. Though TI has approached open market to get the best offer for its products however TI should also benefit from synergies within Murugappa ecosystem in long term like tubular products from engineering segment, sheet metal from metal formed product and motor from CG power to retain maximum value within the group.**
- **Based on our expectation of EV penetration in 3Ws (~19% by FY27E) and TIINDIAs' market share of ~15%, we estimate e-3W business value at ~INR8b (~3x FY27 EV/Sales).**

Exhibit 42: Domestic 3W industry is expected to recover from impact of Covid-19



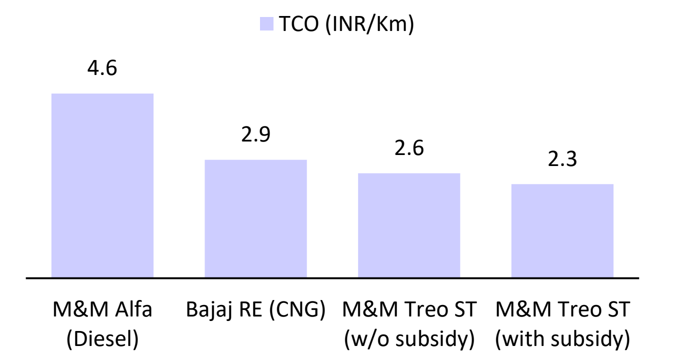
Source: Company, MOFSL

Exhibit 43: EV penetration in domestic 3W to increase to ~18% by FY27E



Source: Company, MOFSL

Exhibit 44: e-3Ws are already at lower TCO than ICE 3Ws



Source: Company, MOFSL

E-TRACTOR BUSINESS

- **TIINDIA forayed into electric tractor by acquiring 70% stake in Cellestial E-Mobility in Jan'22, a Hyderabad-based start-up engaged in the design and manufacture of E-tractors.**
- **Cellestial unveiled its first electric tractor in Mar'20, claiming to have its performance comparable to 21HP diesel tractor, offers a range of 75 km on a single charge and max power of 18HP.**
- **It expects the running cost of its e-tractor to be much lower at INR20-35/hour, as against over INR150/hour for 27HP diesel tractor.**
- **According to the management, Cellestial offers several advantages such as a swappable battery, regenerative brakes, power inversion, charging from residential AC outlet, fast charging and lower total cost of ownership compared to current IC tractors. It claims to have garnered 1,800 bookings since launch in Mar'20.**
- **While Cellestial was the first to showcase electric tractors, subsequently Sonalika and Escorts have launched the same and started selling their e-tractors.**

Exhibit 45: Celestial 27HP tractor (expected launch in 2QFY23) v/s Kubota 27 HP tractor

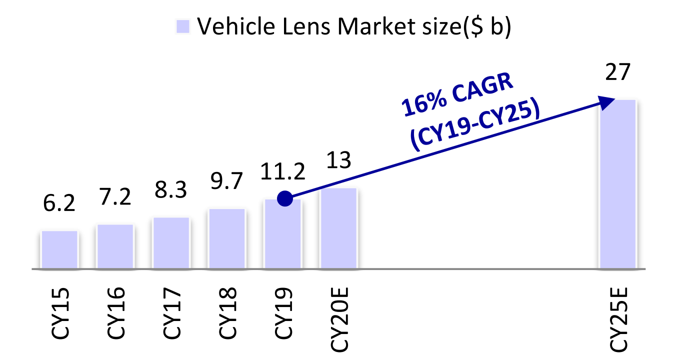
	Celestial Tractor 27HP	Kubota Neostar 27HP
Type of engine	NA	Diesel engine
Total displacement(cc)	NA	1261 cc
Dimensions (mm*mm*mm)	1500*1000*1000	2410*1015*1105
Ground Clearance (mm)	420	325
Max Power	13.5Kw	14.3kW
Max Speed	20Kmph	19.8kmph
Max Range	75kms	NA
Maximum Torque	Not available	81.1Nm
Battery Capacity	150Ah	NA
Pulling Capacity	1.2 ton	
Power takeoff output	540-900 rpm	540-1830 rpm
Turning radius	2.25m	2.1m
Recharge time	Domestic charging - 6hrs Fast charging - 2hrs	NA
Price (in INR m)	Not available	0.55

Source: Company, MOFSL

LENS BUSINESS

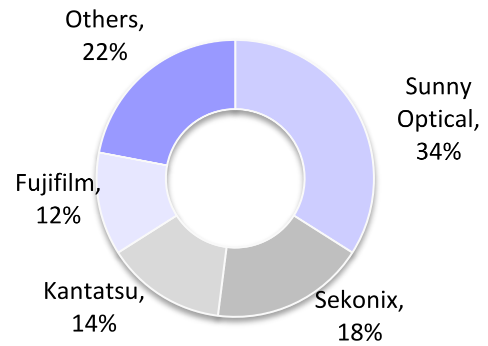
- TIINDIA has commissioned Optic lens facility with a capex of INR300m and started production during FY21. It's establishment is more of a small pilot facility with production capacity of 5m-6m units/year and peak revenue potential of USD3m (at price of 50-60 cents/lens). The strategy is to first establish the product and then augment profitably. The long-term margin is expected to be 15%.
- It is supplying lenses for Advanced Driving Assisting System (ADAS) in PVs. The demand is low due to chip shortage, but it should improve. Going ahead, the company will also explore opportunities in forward integration such as lens module etc.
- Global market size of vehicle lens was ~USD11.2b in 2019. It is estimated to rise to ~USD27b in 2025 at 16% CAGR (2019-2025), driven by increase in penetration in ADAS in vehicles (over six cameras per vehicle for Level 4 & 5 ADAS system). However, the current target market size for TIINDIA would be around USD4-5b as it is operating in Asian and European regions.
- Lens business is dominated by the Chinese, Korean and Japanese players accounting for ~80% of the worldwide shipments. Sunny Optical is a market leader with 34% market share.
- Our View: Even at 10x capacity of ~60m lens p.a. for TIINDIA (implying peak revenues of INR2.3b at realization USD0.5/unit of lens), contribution would not be material enough to move the needle for TIINDIA in the foreseeable future.

Exhibit 46: Vehicle lens market size (USD11b) expected to post 16% CAGR (2019-2025)



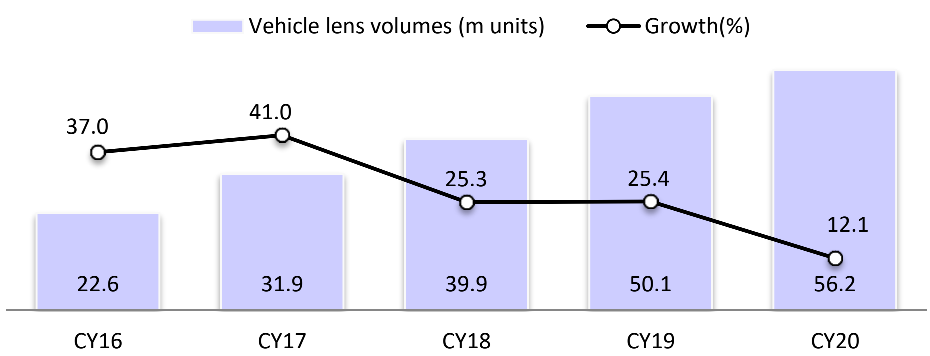
Source: ICV tank, MOFSL

Exhibit 47: ~80% of vehicle lens global business is dominated by four firms



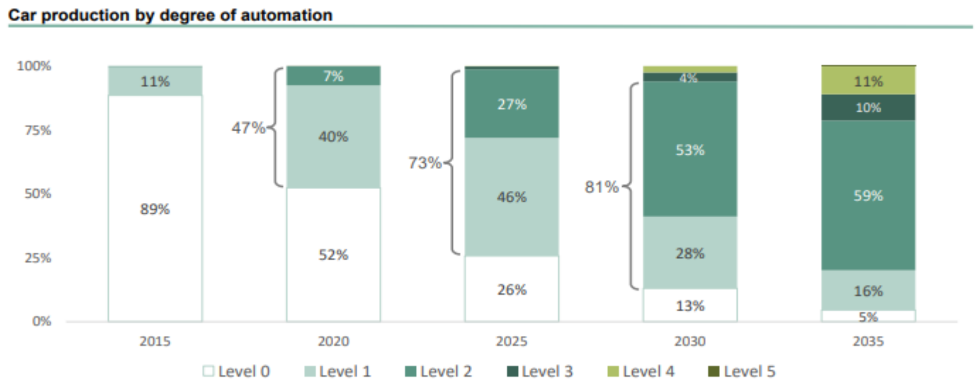
Source: ICV tank, MOFSL

Exhibit 48: Sunny Optical's global vehicle lens shipment sees steady growth with rapid development of 'electrified, connected, intelligent, shared' technology in automotive



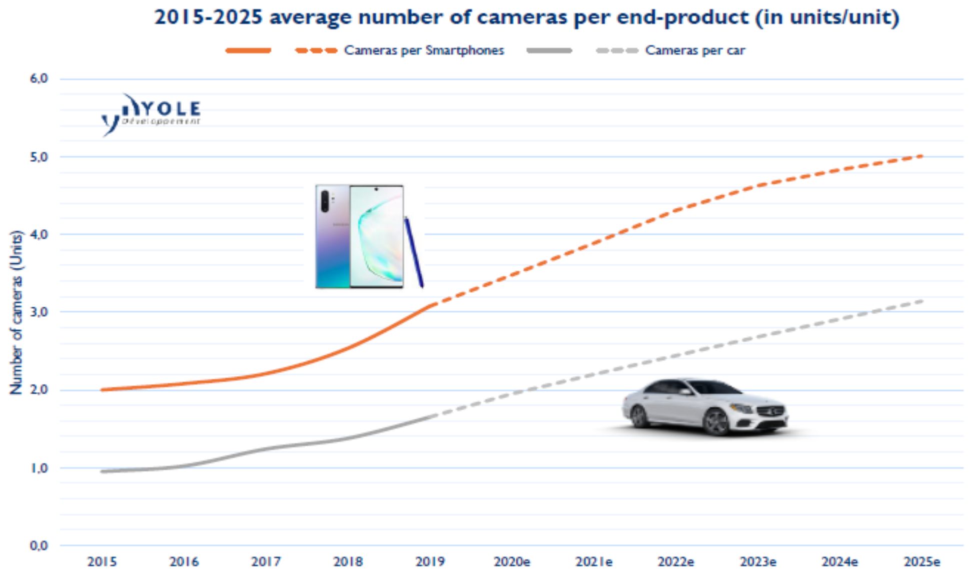
Source: Company, MOFSL

Exhibit 49: With the advancement of levels of ADAS in the cars to be produced….



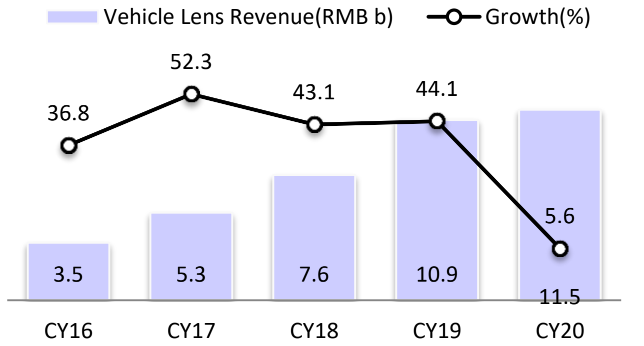
Source: Infieon, Company, MOFSL

Exhibit 50: …..number of cameras per vehicle would increase to three cameras/vehicle



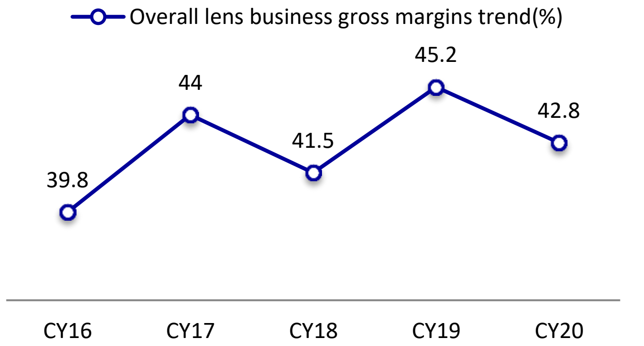
Source: Company, MOFSL

Exhibit 51: Sunny Optical's vehicle lens revenue to grow with increasing demand…



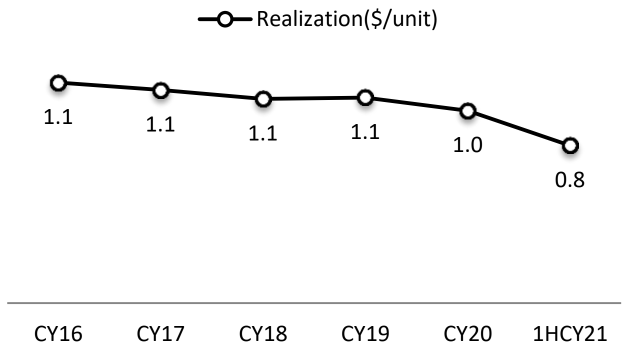
Source: Company, MOFSL,

Exhibit 52: …and healthy gross margin



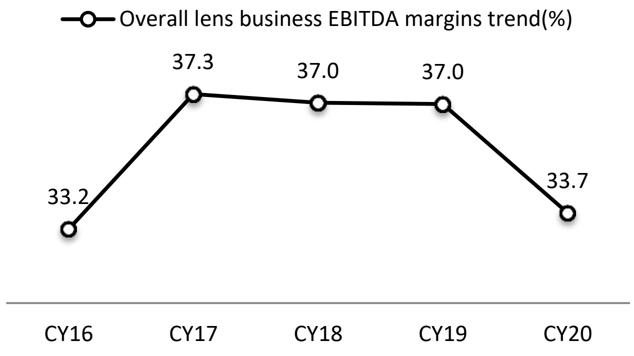
Source: Company, MOFSL

Exhibit 53: Realization for vehicle lens set to decline with increase in volumes…



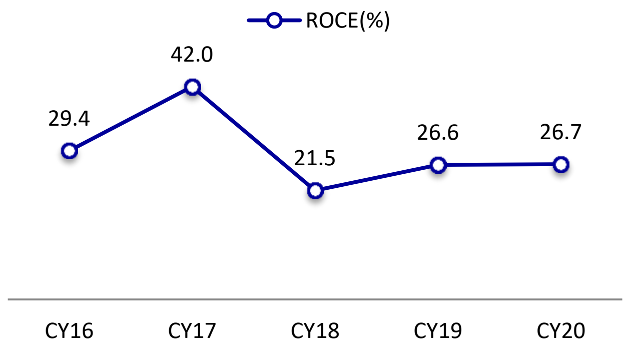
Source: Company, MOFSL,

Exhibit 54: …without impacting profitability of suppliers adversely



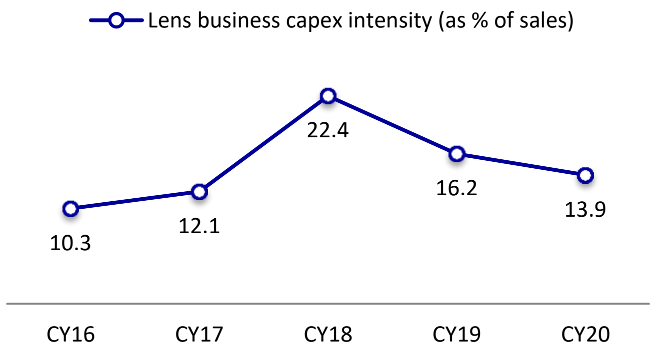
Source: Company, MOFSL

Exhibit 55: Sunny's overall business generates healthy RoCE



Source: Company, MOFSL

Exhibit 56: However the capex intensity is higher than TIINDIA standalone business



Source: Company, MOFSL

Exhibit 57: At 10x of current capacity, contribution at consolidate level would be very small

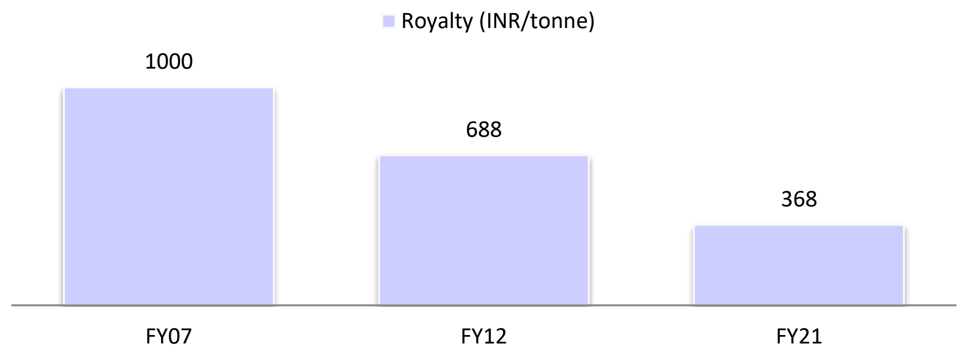
Lens business	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	Second Stage
Capacity (m units)	6	6	20	30	30	50	50	50	50	
Capacity Utilization (%)	50	75	40	60	100	80	80	100	100	
Lens Production (m units)	3	5	8	18	30	40	40	50	50	60
Realn (INR/unit)	39	40	40	40	40	40	40	40	40	40
TI Revenue (INR m)	117	180	320	720	1,200	1,600	1,600	2,000	2,000	2,400
EBITDA margin (%)	-5	0	0	5	10	15	15	15	15	15
EBITDA (INR m)	-6	0	0	36	120	240	240	300	300	360
NOPAT (INR m)	-6	0	0	27	90	180	180	225	225	270

Source: Company, MOFSL

TMT BUSINESS

- **TIINDIA launched TMT bars under the brand name TI Macho TMT Bars, through a licensing agreement with Sakthi Group for manufacturing and marketing of the bars using TIINDIA's technology. The USP of the product is its distinct manufacturing process where an in-line quenching process post hot rolling is used for optimizing the strength, ductility, toughness and durability of the bar.**
- **Taking Kamdhenu as a proxy to evaluate TIINDIA's TMT bars business we found that Kamdhenu is the largest player in TMT branding business and charges a royalty of 1-2% (INR300-500/ton) to its franchisee manufacturers for providing technology and marketing. In FY21, Kamdhenu generated royalty of INR853m (INR369/ton) royalty by selling 2.31mt TMT through its franchisee network.**
- **Kamdhenu TMT has ~20% market share, we are looking at royalty business industry of INR3-4b.**
- **Our View: We do not see the TMT business to be a major growth driver for overall TIINDIA revenue considering the overall small industry size and shrinking royalty margins.**

Exhibit 58: Royalty has decreased significantly over the years and expected to decrease further with increased participation from primary steel producers

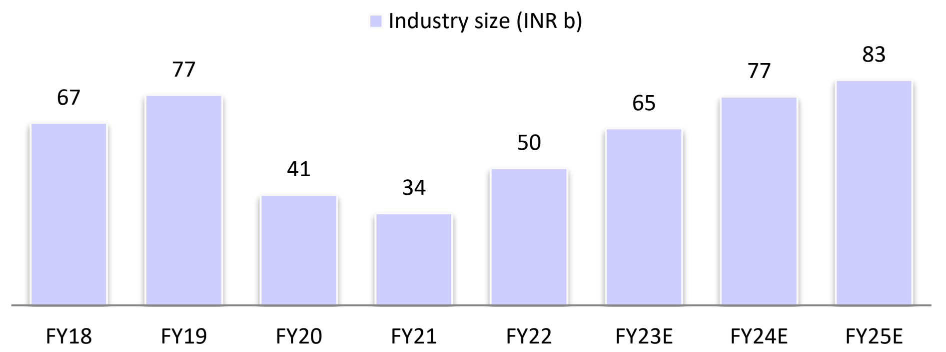


Source: Company, MOFSL

TRUCK BODY BUILDING

- **TIINDIA has setup three plants at Chennai, Pune and Bawal for truck body building. It expects to benefit from a shift to organized players from the unorganized sector in long term. It is targeting OEMs and organized fleet operators for its truck body building business.**
- **Reading through from Commercial Engineers & Body Builders Co Ltd (CEBBCO Ltd), a listed player in truck body building segment, average revenue per truck body is ~INR220k. This implies market size of ~INR50b based on FY22 MHCV volumes.**
- **Our view: Truck body building business is highly fragmented with ~90% of market share lying with unorganized players. While we expect a small shift from unorganized to organized sector, we do not anticipate it to contribute materially in TIINDIA's topline in the near to medium term.**

Exhibit 59: The highly fragmented body building industry is expected to clock 20% CAGR over FY22-FY25



Source: Company, MOFSL

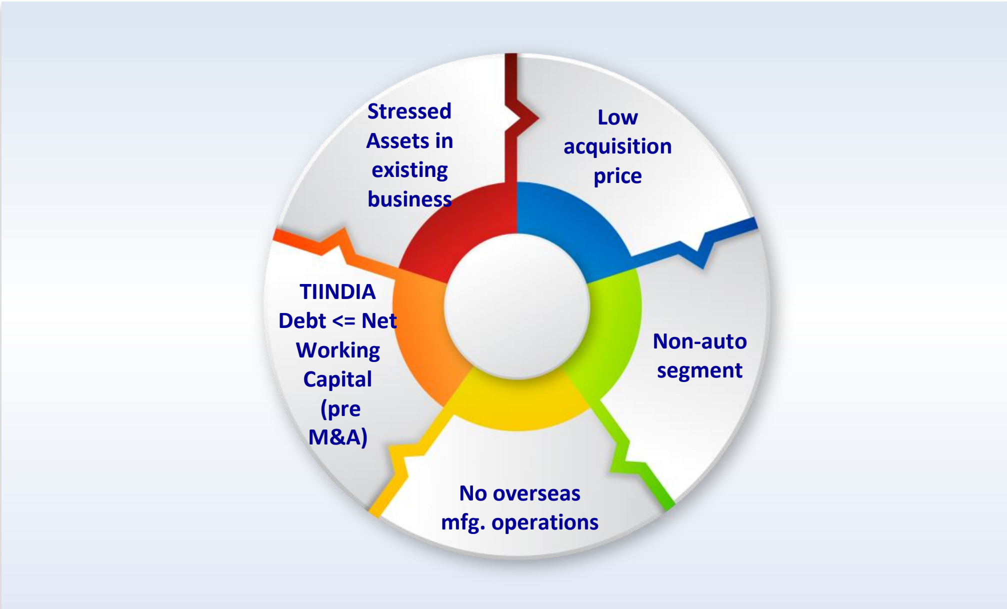
TI-3: Acquisition-led growth (PE model)

Recently-acquired CG power now contributes over 33% to TIINDIA's SOTP

TI-3 is based on acquiring stressed assets in either existing line of businesses or new areas. However, the management has decided not to acquire by increasing the debt burden materially on sustainable basis. It has so far acquired only one asset – CG Power, which has already seen very good turnaround. Shanti Gears acquisition (in July 2012) was done much before this TI way of growth strategy was adopted.

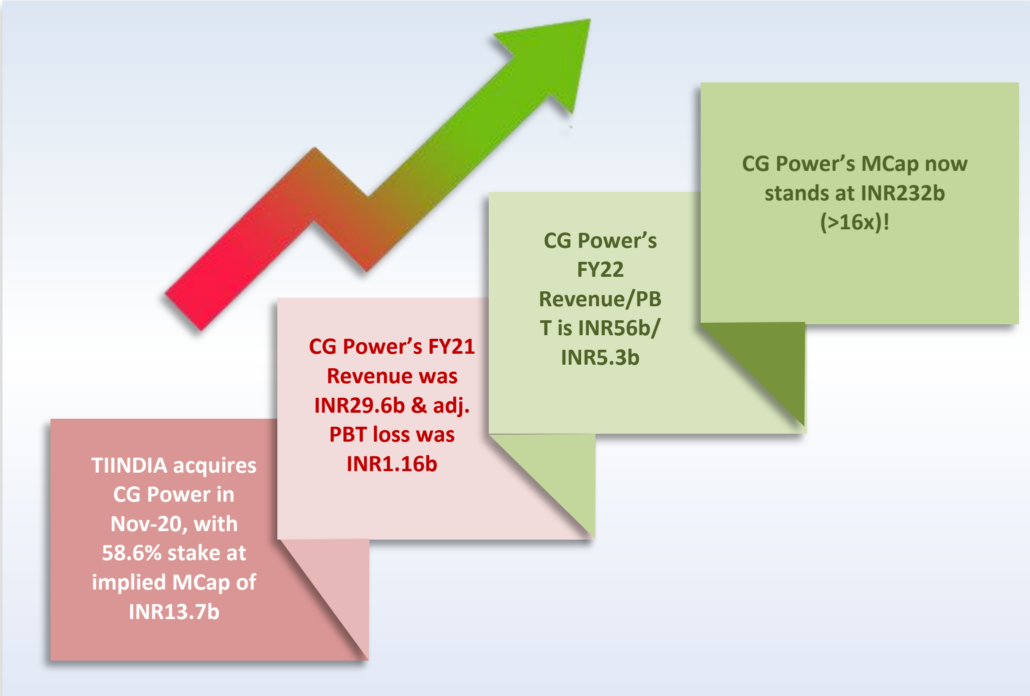
- TIINDIA acquired CG Power in Nov'20 with INR8b equity infusion and a controlling stake of 58.12% stake on fully diluted basis. Post-acquisition, market cap of CG power grew over ~17x to INR239b (from INR13.7b in Nov'20).
- CG Power's product portfolio ranges from transformers, switchgear, circuit breakers, network protection & control gear, project engineering, High Tension (HT) and Low Tension (LT) motors, drives, power Automation Products and turnkey solutions in all these areas.
- CG Power has a presence of 83 years in India. It is one of the world's top 10 transformer manufacturers, second in transformers and switch gears in India and is among the top motors manufacturers in India. It caters to more than 21 industries and has over 20 manufacturing units.
- CG Power enjoys a dominant position within the industry along with a good execution record. With immense growth potential in the industry and loss making international entities into liquidation, CG Power can regain its lost mojo under TIINDIA.
- **Strong turnaround and net debt free**: CG Power has staged an impressive turnaround in FY22, with revenue growing at ~88% YoY to INR55.6b (v/s FY19 revenue of ~INR80b) and EBITDA margin at a decadal high of 11.8% (v/s ~3.3% in FY19). Recurring PBT was at ~INR5.3b (almost at a decadal high and positive after three years). Strong operating cashflows (~INR4.8b) as well as warrant conversion led to CG Power turning net cash positive at ~INR1.76b as of Mar'22 (v/s ~INR9.3b of net debt as of Mar'21).

Exhibit 61: TI-3 inorganic approach is based on conservative criteria



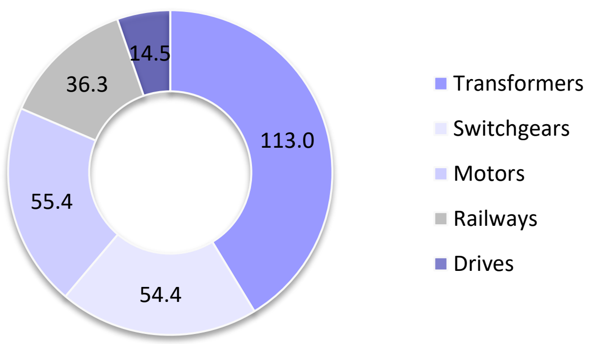
Source: Company, MOFSL

Exhibit 62: CG Power (acquired under TI-3 strategy) has already turnaround



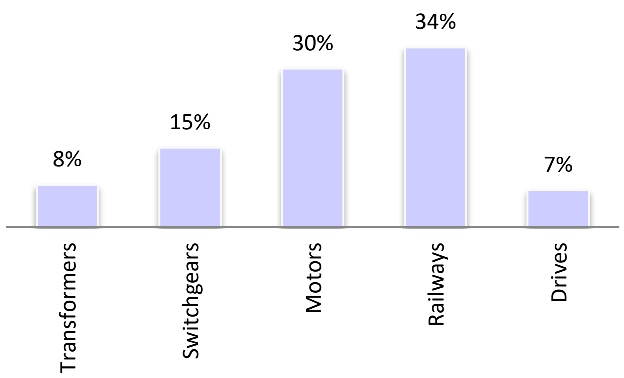
Source: Company, MOFSL

Exhibit 63: Industry size of various products (INR b)…



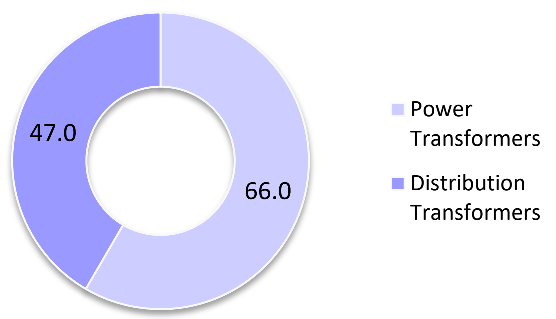
Source: MOFSL, Company presentation-Aug'19

Exhibit 64: …CG Power market share in these products



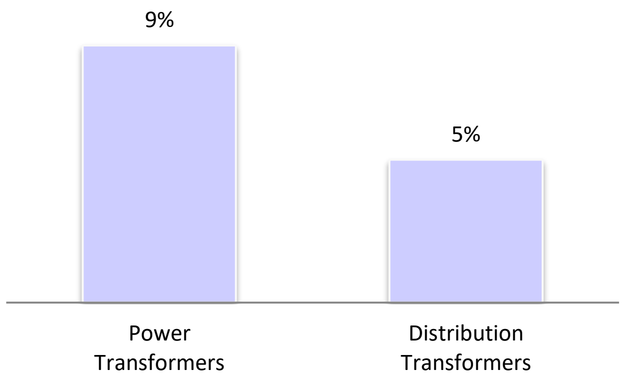
Source: MOFSL, Company presentation-Aug'19

Exhibit 65: Transformer product offerings' indicative market size (INR b)



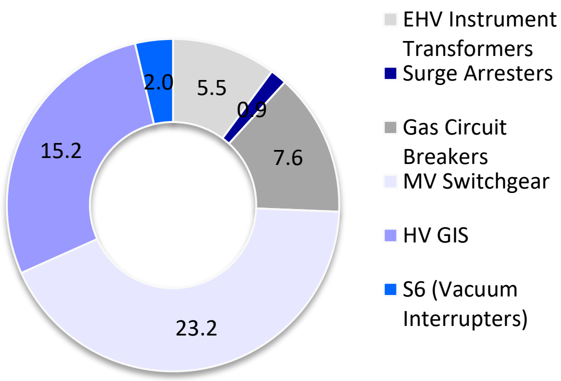
Source: MOFSL, Company presentation-Aug'19

Exhibit 66: CG Power's indicative market share in transformers product categories



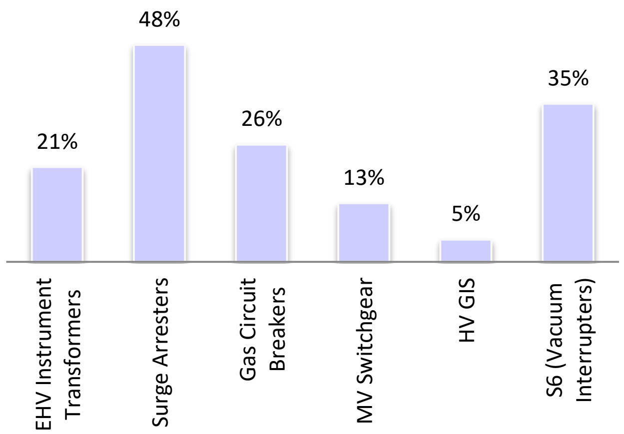
Source: MOFSL, Company presentation-Aug'19

Exhibit 67: Switchgears product offerings' indicative market size (INR b)



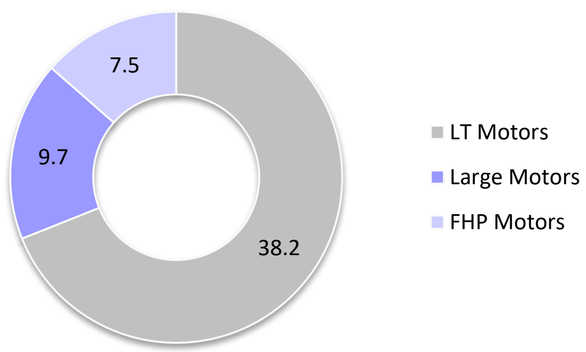
Source: MOFSL, Company presentation-Aug'19

Exhibit 68: CG Power's indicative market share in various switchgear product categories



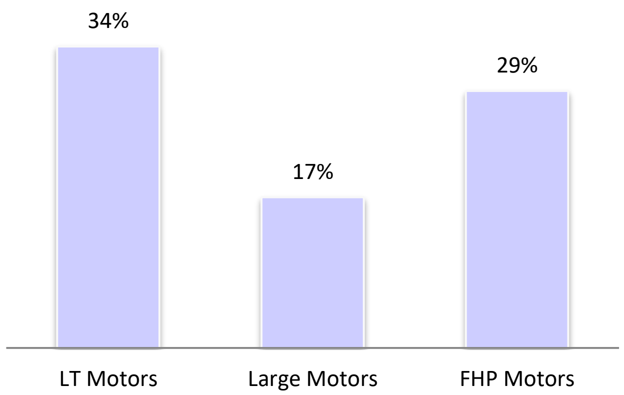
Source: MOFSL, Company presentation-Aug'19

Exhibit 69: Motors product offerings' indicative market size (INR b)



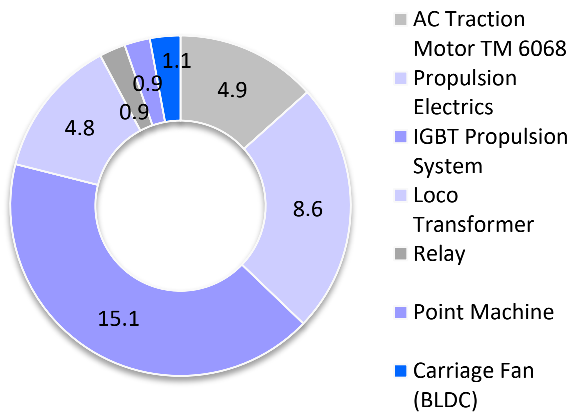
Source: MOFSL, Company presentation-Aug'19

Exhibit 70: CG Power's indicative market share in Motors product categories



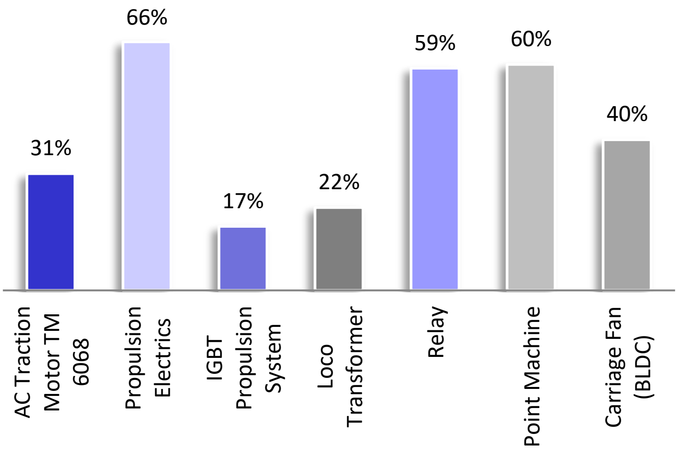
Source: MOFSL, Company presentation-Aug'19

Exhibit 71: Railways product offerings' indicative market size (INR b)



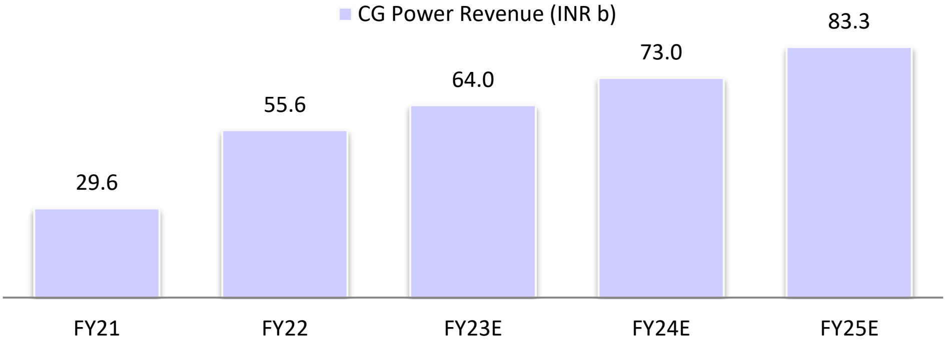
Source: MOFSL, Company presentation-Aug'19

Exhibit 72: CG Power's indicative market share in Railways product categories



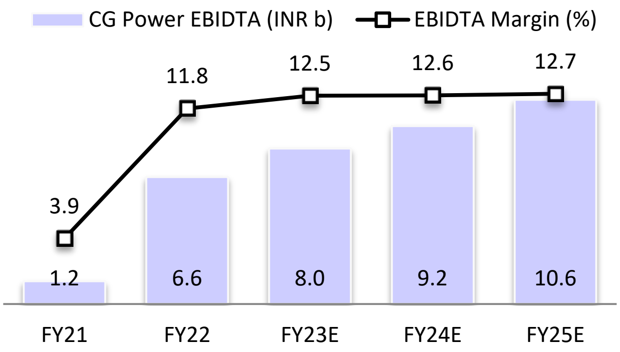
Source: MOFSL, Company presentation-Aug'19

Exhibit 73: Revenue is likely to report a CAGR of 12.2% over FY21-25E



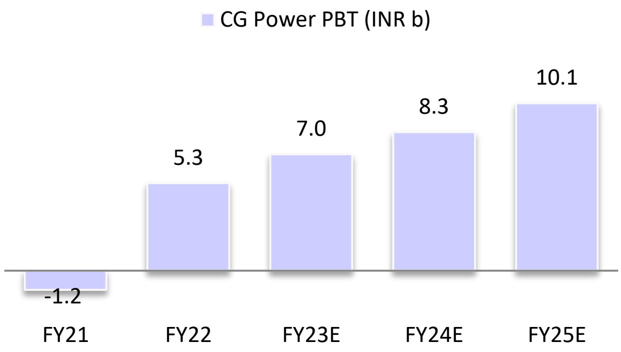
Source: MOFSL, Company

Exhibit 74: EBITDA is expected to reach INR10.6b by FY25 while margin to remain stable at 12-13%…



Source: MOFSL, Company

Exhibit 75: …and a large part would flow to PBT as most of the assets are already depreciated



Source: MOFSL, Company

Valuation and View: Initiate coverage with a BUY rating

Multi-business company with a mixed bag of growth drivers in place

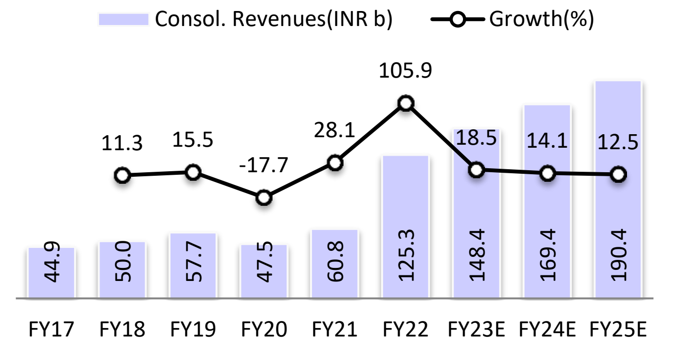
- TIINDIA offers a robust growth story driven by: a) reasonable growth in the core business and b) leveraging strong cashflows of the core business (TI-1) to systematically incubate future growth platforms (TI-2) and opportunistic acquisition of stressed assets (TI-3) at attractive prices.
- Since Mr Vellayan Subbiah was appointed as the Managing Director in Mar'17 (promoted to Executive Vice Chairman in Mar'22), TIINDIA has delivered strong operating performance (~300bp EBIT margin expansion, ~24% PAT CAGR FY17-22 and Core RoCE improvement of over 9pp to ~47%) despite operating in challenging environment over the last three years. After delivering on the core businesses (TI-1), Mr Subbiah is now focused on the new businesses (TI-2 and TI-3) whereas Mr Mukesh Ahuja (MD from Apr'22, earlier President of Tube Products of India) will take care of the core businesses.
- For the standalone business, we estimate 16% revenue CAGR over FY22-25E and EBITDA CAGR of 21%, led by EBITDA margin expansion of 180bp to 12.9% (v/s peak of 12.8% in FY20) driven by improving mix, operating leverage and 'Lean' project initiatives. As a result, we estimate PAT to clock 25% CAGR over FY22-25E. This would drive improvement in core RoCE by 7.7bp to 54.9% by FY25E.
- At consolidated level, we estimate revenue/EBITDA/PAT CAGR of ~15%/20%/ 20% over FY22-25E, respectively, on a high base of FY22 where CG Power delivered robust performance. We estimate consolidated RoCE to improve by 470bp to 37.1% by FY25. We are not building in for any benefit from new ventures under TI-2 (except Lens business, which is part of Others) in our consolidated performance. Based on our DCF-based estimates, we see potential value of ~INR84 per share from e-3Ws and tractors businesses.
- **Valuation and view:** TII offers diversified revenue streams, with strong growth in the core business (~25% CAGR), ramp-up in CG Power and optionality of new businesses incubated under TI-2 strategy. The stock trades at 25.7x/20.6x FY23E/FY24E consol. EPS. **We initiate coverage on the stock with a BUY rating and a TP of ~INR1,900 (premised on Mar'24E SOTP, based on 30x for the standalone business and valuing listed subsidiaries at 20% HoldCo discount).**

Exhibit 76: SOTP-based valuation

SOTP (INR/Share)	FY23E	FY24E	FY25E
Value of S/A Business @ 30X EPS	968	1,205	1,425
Value of listed subs post hold-co discount (20%)			
Shanthi gear	44	44	44
CG power	651	651	651
Fair value (INR/Share)	**1,663**	**1,900**	**2,121**
TP @ Mar-24		**1,900**	

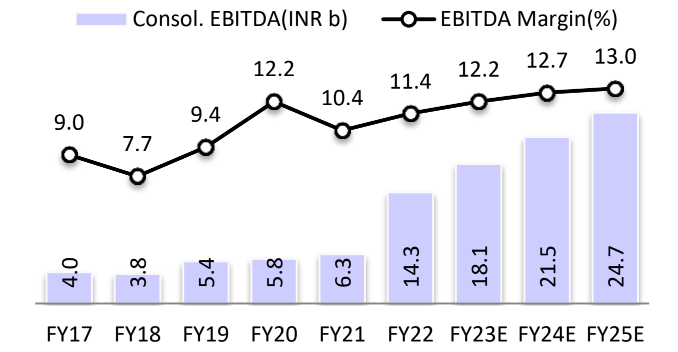
Source: Company, MOFSL

Exhibit 77: Revenue to record 15% CAGR over FY22-FY25E…



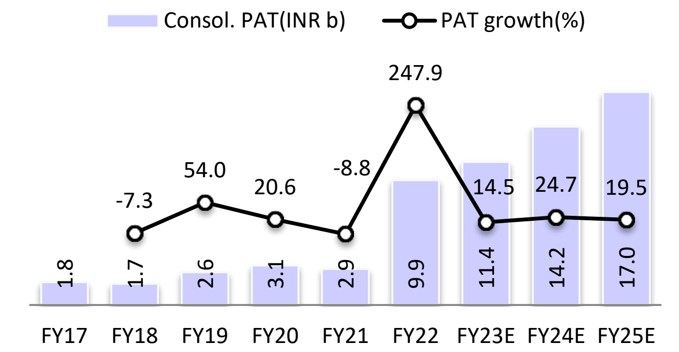
Source: Company, MOFSL

Exhibit 78: EBITDA to report 20% CAGR while EBITDA margin to expand 1.5pp during FY22-FY24E



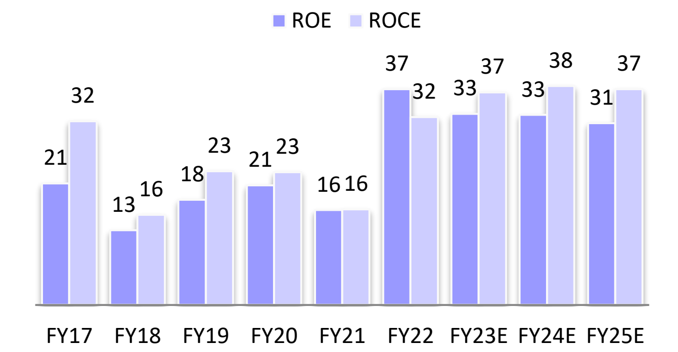
Source: Company, MOFSL

Exhibit 79: PAT to clock 24% CAGR…



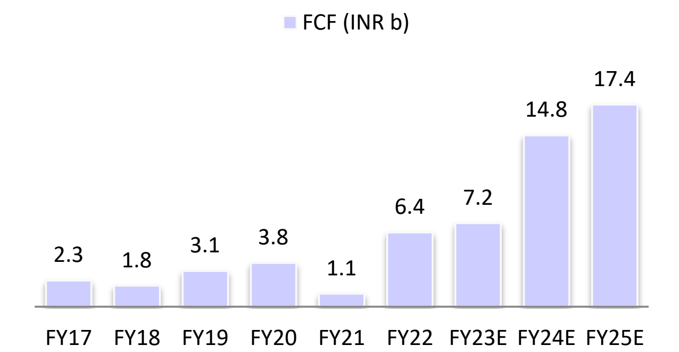
Source: Company, MOFSL

Exhibit 80: …while, ROCE to expand 3pp over FY22-FY25E



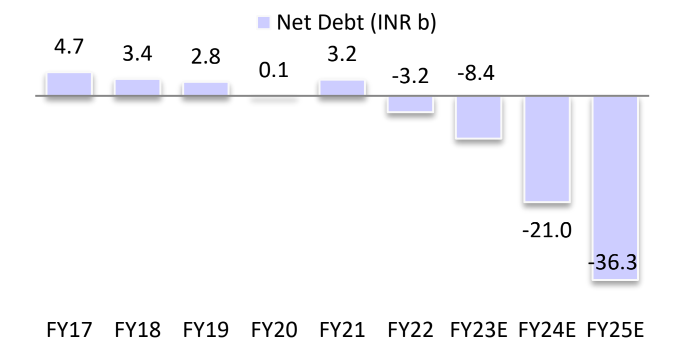
Source: Company, MOFSL

Exhibit 81: TIINDIA continue to generate positive FCF…



Source: Company, MOFSL

Exhibit 82: And became net cash positive in FY22 and expected to be debt free in next 2-3 year



Source: Company, MOFSL

Management profile

Mr. M A M Arunachalam is the Executive Chairman of TIINDIA. He is a senior member of the Murugappa family. He is an MBA from the University of Chicago, USA. He is currently the Managing Director of M/s. Parry Enterprises India Limited (PEIL), a Murugappa group business arm which is into polynets, general marketing, travels and solar energy.

Mr. Vellayan Subbiah is the Executive Vice Chairman of TIINDIA. He holds a Bachelor of Technology in Civil Engineering from IIT Madras and a Masters in Business Administration from University of Michigan. He has over 23 years of experience in varied fields viz., technology, projects and financial services. He has worked with McKinsey and Company, 24/7 Customer Inc. and Sundram Fasteners Ltd.

Mr. Kalyan Kumar Paul is the President of TI Clean Mobility, a unit of Tube Investments of India Ltd effective 16th Nov'18. He is a Bachelor of Science with Honors from Presidency College, Kolkata and holds an MBA in Sales & Marketing from Indian Institute of Social Welfare and Business Management, Kolkata. He has over three decades of experience in managing Domestic and International Operations, Sales and Marketing across diverse industries.

Mr. Mukesh Ahuja is the Managing Director of Tube Products of India, a unit of Tube Investments of India Ltd. He is a Graduate in Production Engineering from Dr. BA Marathwada University and MBA in Marketing. He has completed the Executive General Management Program from IIM-Bangalore and Advance Management Program from the Harvard Business School, Boston. He has over two decades of experience in managing operations, strategy, business development and sales & marketing.

K Mahendra Kumar is the Executive Vice President and Chief Financial Officer of Tube Investments of India Ltd. He is a qualified Chartered Accountant from the Institute of Chartered Accountants of India and also a Management Accountant from the Certified Institute of Management Accountants (CIMA), UK. He has over two decades of experience in the finance function having worked in diverse sectors such as chemicals, automotive, information technology, wind energy and elevators.

Bulls and Bear cases

INR m	Base			Bull			Bear		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	77,218	88,308	98,276	80,398	95,964	1,11,594	74,038	80,970	86,061
Gr (%)	21	14	11	26	19	16	16	9	6
EBITDA	9,058	11,112	12,713	11,039	13,995	16,668	7,204	8,570	9,412
EBITDA Margin (%)	11.7	12.6	12.9	13.7	14.6	14.9	9.7	10.6	10.9
Dep+Int-OI	764	630	498	764	630	498	764	630	498
Tax rate (%)	25	25	25	25	25	25	25	25	25
PAT	6,224	7,880	9,196	7,711	10,047	12,174	4,833	5,969	6,711
EPS (INR)	32.3	40.9	47.7	40.0	52.1	63.1	25.1	30.9	34.8
Gr (%)	31	27	17	62	30	21	2	23	12
Dividend	6	8	10	6	8	10	6	9	10
Networth	31,993	38,277	45,570	33,479	41,931	52,201	30,689	34,922	39,703
RoE (%)	21.1	22.4	21.9	25.5	26.6	25.9	16.8	18.2	18.0
Target PE (x)	30	30	30	35	35	35	25	25	25
Value of subs post HoldCo discount (20%)									
Shanthi Gear		44			44			44	
CG Power		652			652			652	
TP (Mar'24 SOTP)		1,900			2,610			1,495	
Upside CAGR (%)		25.4			72.2			-1.4	
Remarks				Strong acceptance and fast expansion of e3W Fast growth in Lens segment			Weak growth in exports Unable to pass full impact of RM cost inflation		

Source: Company, MOFSL

Key risks

- **Margin improvement dependency on 'Lean' program initiatives**: A part of our 140bp EBITDA margin improvement in the standalone business is driven by the 'Lean' program initiatives and productivity gains, which are expected to contribute 1-2pp to margins. Slower or lower execution of these initiatives is a key risk to our margin expansion estimates.

- **TI-2 growth strategy highly dependent on execution in new business areas**: The TI-2 growth strategy (VC model) of incubating new businesses beyond existing area of expertise calls for seamless execution along with desired evolution of the underlying industry (e.g. electrification in 3Ws, tractors etc.).

- **Acquisition under TI-3 strategy would need sustained turnaround:** The TI-3 strategy is dependent on getting stressed assets in either existing businesses or new areas. This strategy would need: a) obtaining stressed assets at reasonable price and b) capabilities to turnaround such assets, like it did for CG Power.

- **Upside risk to our CG Power estimates:** Our estimates for CG Power factor in reasonable scale-up in the core businesses. We are not factoring in any substantial: a) recovery in market share from FY22 levels in the core businesses, b) contribution from exports, c) contributions from new products such as fast moving electrical goods and EV motors.

SWOT analysis

Strength

- Proven management skills with three-bucket growth strategy
- Diversified business lines with multiple products
- Continuous engagement in launching new products
- Exports are geographically diversified in EU, Americas and Asia

Weakness

- TMT business is operating in a contracting margin business
- Truck body building business scalability is a challenge as majority of the industry is unorganized

Opportunity

- Evolving India e3W market provides huge opportunity to establish itself as a strong brand
- Growing ADAS technology in vehicles would increase addressable market for lens business and can drive faster expansion

Threats

- Unfavorable incentive scheme in e3W category can impact its prospects adversely
- Faster adoption of e2W can impact the drive chain business negatively.

Financials and valuation

Consolidated - Income Statement								(INR M)
Y/E March	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23E**	**FY24E**
Net Op. Revenues	**44,930**	**50,000**	**57,748**	**47,504**	**60,833**	**1,25,253**	**1,48,370**	**1,69,354**
Change (%)		11.3	15.5	-17.7	28.1	105.9	18.5	14.1
EBITDA	**4,030**	**3,836**	**5,447**	**5,785**	**6,347**	**14,338**	**18,061**	**21,512**
Margin (%)	9.0	7.7	9.4	12.2	10.4	11.4	12.2	12.7
Depreciation	1,489	1,535	1,616	1,853	2,506	3,492	3,818	4,008
EBIT	**2,541**	**2,301**	**3,831**	**3,932**	**3,841**	**10,846**	**14,243**	**17,504**
Int. and Finance Charges	740	585	528	304	459	583	428	459
Other Income	484	586	532	623	681	1,086	1,366	1,884
PBT bef. EO Exp.	**2,286**	**2,302**	**3,835**	**4,252**	**4,064**	**11,349**	**15,181**	**18,928**
EO Income/(Exp)	0	-33	30	-220	-419	202	0	0
PBT after EO Exp.	**2,286**	**2,269**	**3,865**	**4,032**	**3,645**	**11,551**	**15,181**	**18,928**
Current Tax	479	723	1,228	1,144	1,074	1,731	3,795	4,732
Deferred Tax	-11	-140	40	-244	-286	-123	0	0
Tax Rate (%)	20.5	25.7	32.8	22.3	21.6	13.9	25.0	25.0
Reported PAT	**1,744**	**1,555**	**2,508**	**3,133**	**2,858**	**9,914**	**11,386**	**14,196**
Adjusted PAT	**2,484**	**1,579**	**2,488**	**3,303**	**3,186**	**9,740**	**11,386**	**14,196**
Change (%)		-36.4	57.5	32.8	-3.6	205.7	16.9	24.7
Margin (%)	5.5	3.2	4.3	7.0	5.2	7.8	7.7	8.4

Consolidated - Balance Sheet								(INR M)
Y/E March	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23E**	**FY24E**
Equity Share Capital	187	188	188	188	193	193	193	193
Total Reserves	11,689	12,536	14,566	17,149	21,525	30,518	38,312	48,124
Net Worth	**11,876**	**12,723**	**14,754**	**17,337**	**21,718**	**30,711**	**38,505**	**48,317**
Total Loans	7,262	5,359	5,079	2,694	13,262	8,038	8,038	8,038
Capital Employed	**19,138**	**18,082**	**19,833**	**20,031**	**34,979**	**38,748**	**46,542**	**56,354**
Gross Block	12,871	14,893	17,126	19,753	39,006	40,339	44,252	47,882
Less: Accum. Deprn.	2,990	4,519	6,049	7,820	10,353	13,845	17,662	21,671
Net Fixed Assets	**9,881**	**10,374**	**11,077**	**11,933**	**28,654**	**26,494**	**26,589**	**26,211**
Capital WIP	339	901	689	585	1,353	1,283	1,000	1,000
Total Investments	**2,361**	**1,680**	**1,762**	**2,266**	**4,267**	**5,537**	**5,537**	**5,537**
Curr. Assets, Loans&Adv.	**15,710**	**17,080**	**16,989**	**12,927**	**37,592**	**43,722**	**59,004**	**78,349**
Inventory	7,313	7,609	8,148	5,586	11,094	13,271	18,292	20,879
Account Receivables	6,150	6,970	6,806	5,246	12,785	17,853	22,357	25,519
Cash and Bank Balance	239	325	560	378	5,755	5,727	10,937	23,483
Loans and Advances	2,008	2,177	1,474	1,716	7,958	6,871	7,418	8,468
Curr. Liability & Prov.	**11,740**	**14,454**	**13,024**	**9,970**	**51,914**	**43,432**	**48,459**	**54,825**
Account Payables	7,754	9,506	9,614	6,959	22,570	23,432	23,920	27,138
Other Current Liabilities	3,488	4,235	2,675	2,371	26,312	17,717	22,255	25,403
Provisions	498	714	735	640	3,032	2,283	2,283	2,283
Net Current Assets	**3,971**	**2,626**	**3,965**	**2,957**	**-14,322**	**289**	**10,546**	**23,525**
Deferred Tax assets	444	425	211	106	7,592	5,136	5,136	5,136
Appl. of Funds	**20,054**	**19,086**	**20,795**	**20,939**	**38,447**	**45,363**	**55,431**	**68,032**

E: MOSL Estimates

Financials and valuation

Ratios								
Y/E March	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23E**	**FY24E**
Basic (INR)								
EPS	**13.3**	**8.4**	**13.2**	**17.6**	**16.5**	**50.5**	**59.0**	**73.6**
Cash EPS	21.2	16.6	21.9	27.4	29.5	68.6	78.8	94.4
BV/Share	63.4	67.9	78.6	92.3	112.6	159.2	199.6	250.5
DPS	2	2	2	4	4	5	6	8
Payout (%)	25.9	22.3	19.9	21.0	23.6	10.1	10.9	11.2
Valuation (x)								
P/E	114.3	179.9	114.4	86.2	91.7	30.0	25.7	20.6
Cash P/E	71.5	91.2	69.4	55.2	51.3	22.1	19.2	16.1
P/BV	23.9	22.3	19.3	16.4	13.5	9.5	7.6	6.1
EV/Sales	6.5	5.8	5.0	6.0	4.9	2.4	2.0	1.6
EV/EBITDA	72.2	75.4	53.1	49.6	47.2	20.6	16.0	12.9
Dividend Yield (%)	0.1	0.1	0.2	0.2	0.2	0.3	0.4	0.5
FCF per share	12.1	9.7	16.5	20.1	5.8	33.2	37.3	76.6
Return Ratios (%)								
RoIC	12.0	11.5	21.5	27.2	20.4	42.7	43.4	46.1
RoE	20.9	12.8	18.1	20.6	16.3	37.2	32.9	32.7
RoCE	31.6	15.5	23.0	22.9	16.4	32.4	36.6	37.7
Working Capital Ratios								
Fixed Asset Turnover (x)	3.5	3.4	3.4	2.4	1.6	3.1	3.4	3.5
Asset Turnover (x)	2.2	2.6	2.8	2.3	1.6	2.8	2.7	2.5
Inventory (Days)	59	56	51	43	67	39	45	45
Debtor (Days)	47	50	43	40	77	52	55	55
Creditor (Days)	63	69	61	53	135	68	59	58
Working Cap. Turnover (Days)	30	17	22	20	-120	-16	-1	0

Consolidated - Cash Flow Statement								(INR M)
Y/E March	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23E**	**FY24E**
OP/(Loss) before Tax	2,286	2,269	3,865	4,032	3,645	11,518	15,181	18,928
Depreciation	1,507	1,534	1,616	1,715	2,506	3,492	3,818	4,008
Interest & Finance Charges	740	585	528	304	459	583	428	459
Direct Taxes Paid	-392	-692	-1,182	-1,223	-990	-1,149	-3,795	-4,732
(Inc)/Dec in WC	36	405	250	1,162	-3,157	-5,209	-5,118	-432
Others	-348	-10	-146	-28	108	-462	307	171
CF from Operating	**3,829**	**4,091**	**4,930**	**5,961**	**2,572**	**8,773**	**10,820**	**18,403**
(Inc)/Dec in FA	-1,564	-2,267	-1,835	-2,191	-1,449	-2,369	-3,630	-3,630
Free Cash Flow	**2,265**	**1,823**	**3,095**	**3,770**	**1,123**	**6,404**	**7,190**	**14,773**
(Pur)/Sale of Investments	-1,186	253	-275	-344	-2,169	-883	0	0
Others	116	110	158	76	170	2,459	1,366	1,884
CF from Investments	**-2,634**	**-1,904**	**-1,953**	**-2,459**	**-3,448**	**-793**	**-2,264**	**-1,746**
Issue of Shares	0	1	26	40	42	33	0	0
Inc/(Dec) in Debt	-5,762	-1,503	-1,543	-1,744	439	-6,147	0	0
Interest Paid	-1,084	-622	-631	-281	-337	-591	-428	-459
Dividend Paid	0	-785	-657	-1,059	-423	-724	-1,245	-1,596
Others	5,794	93	0	204	6,088	-1,565	0	0
CF from Fin. Activity	**-1,052**	**-2,815**	**-2,804**	**-2,841**	**5,809**	**-8,993**	**-1,673**	**-2,055**
Inc/Dec of Cash	**143**	**-628**	**174**	**661**	**4,933**	**-1,014**	**6,883**	**14,601**
Opening Balance	1	144	-485	-311	350	5,282	4,269	11,152
Closing Balance	**144**	**-485**	**-311**	**350**	**5,282**	**4,269**	**11,152**	**25,753**

NOTES

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RECENT INITIATING COVERAGE REPORTS

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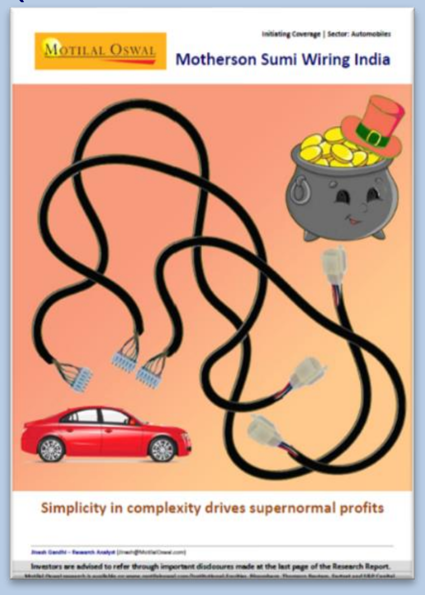

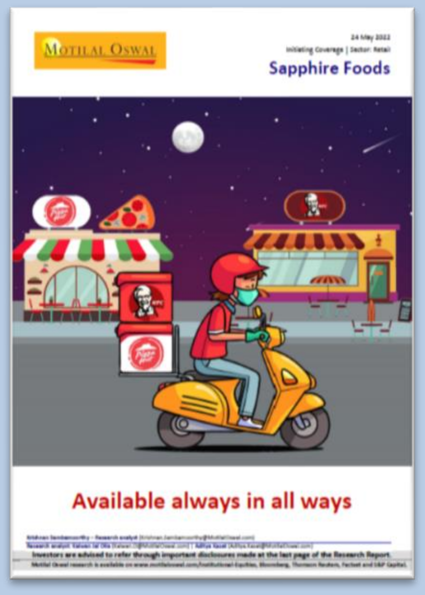

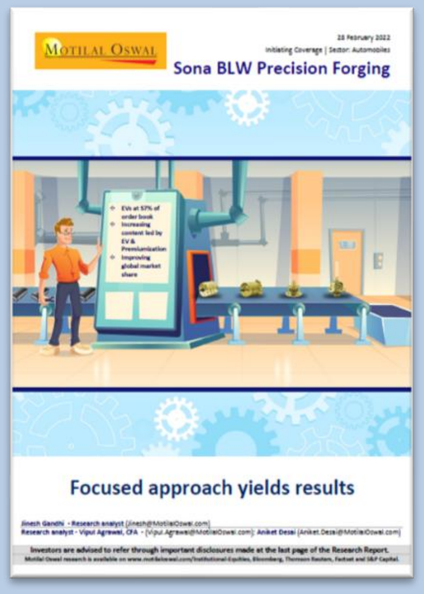

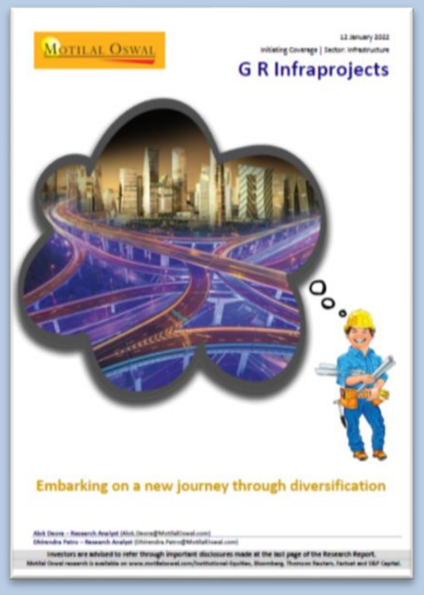

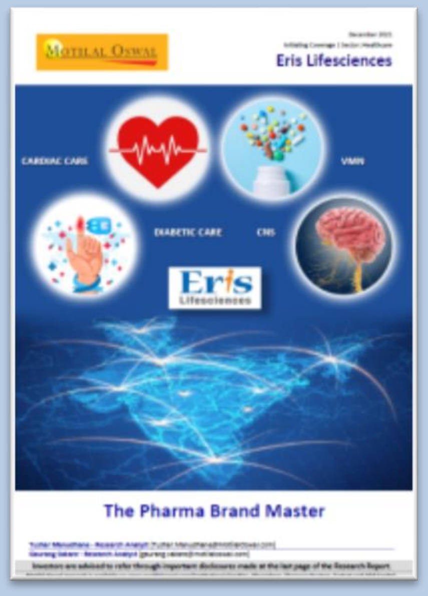

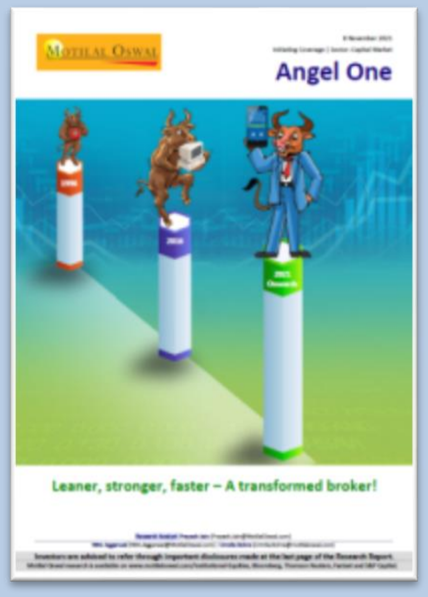

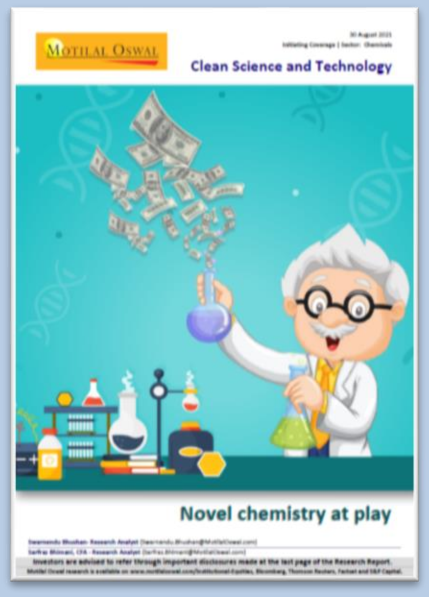

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Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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