14th July, 2021

INITIATING COVERAGE

Retail Equity Research (South India Focus)

TUBE INVESTMENTS OF INDIA LTD

Auto Ancillary

Buy

12Month Investment Period | Rating as per Mid Cap

BSE CODE : 540762 | NSE CODE: TUBEINVEST

BLOOMBERG CODE: TII:IN | SENSEX : 52,770

CMP Rs. 1,133 TARGET Rs. 1,306 RETURN 15%

(Closing: 13-07-2021)

Three pillar strategy for future growth...

Tube Investment of India (TII) is a flagship company of Murugappa group. It is one of the leading product manufacturers for major industries such as Automotive, Railway, Construction, Mining, etc.

- **TIIs strategy to de-risk from the auto sector (Revenue mix of 70%) and concentrate more on industrial segments through acquisitions or inorganic growth, to support long term revenue visibility.**
- **Acquisition of CG Industrial & Power Co, which provides power and industrial system related service in India, and abroad will enhance TII's product portfolio and revenue mix.**
- **TII's entry into 3W electric manufacturing will mark the group's foray into automobile manufacturer from an ancillary player. It is planning to start production & selling electric 3W by Q4FY22.**
- **We expect the revenue and PAT to grow by 21%/60% CAGR over FY21-23E owing to diversified product mix and value migration.**
- **Given the strong fundamentals and strategic change adopted in the company's segment mix, we value TII on a consolidated basis and recommend Buy rating with a target price of Rs1,306 at CMP.**

Leading Manufacturer in Tube business

TII's main three verticals include Engineering, Metal formed Products, and Bicycles, which are growing in line with its strategy and registering strong growth. The 70% of the revenue comes from Automotive industry. Transition to BS-VI emission norms has mandated the adoption of higher content per vehicle in the new models. This provide a major business opportunity for the engineering segment, that registered a growth of 57% YoY for Q4FY21 & accounts for 50% of the segment mix. The roadmap for railway in the budget will become the biggest growth engine for the country. We believe it is a major growth booster for TII's metal formed product division that constitutes 32% of mix.

Three pillar strategy for future growth

Tube investment is adopting a 3 pillar strategy to insulate itself from the cyclical nature of the auto sector. The company has identified T1 as the existing division or organic growth, T2 as a venture capital style approach for medium term and T3, growth through inorganic such as CG Power & Industrial solutions. The Acquisition of debt ridden CG power for Rs800cr in FY20 was a game changer for the company. Despite being at dire strait due to mis-management and fraud, the 82 yr old company has a strong presence in the market. It is the world's top 10 transformer manufacturer, and in India, it is a leader in motor and holds the second position in switch gears. The company has set a modest target of Rs.5000cr of revenue and Rs500cr PBT in four to five years for CG, and expects to be debt free.

Foray into Electric 3W manufacturing and Optic lens

TII's entry into 3W electric manufacturing with an outlay of Rs200cr will also mark the group's foray into complete automobile manufacturing. The technology and the prototype of EV three wheeler has already been developed and will be a combination of in house as well as design support from a Korean company. TII is planning to start manufacturing and selling electric 3W by Q4FY22. The company has also made a small foray into optical lens or vision products for automotive and other industries. On an initial phase, existing plant has already been setup for a capacity of half a million lenses a month for the Q1FY22 and further expansion in Phase-2.

Valuations

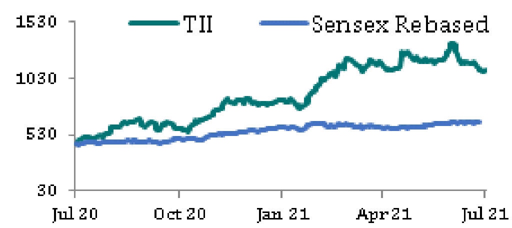
TIIs diversified approach to de-risk from the auto sector and concentrate more on Industrial components of railways & power sectors through inorganic form, to support long term revenue visibility. Additionally, incremental growth from scrappage policy & BS-VI transition to aid organic growth. We value TII on a consolidated basis, with a P/E of 32x FY23E EPS and recommend Buy rating with a target price of Rs.1,306 at CMP.

Company Data	
Market Cap (cr)	Rs21,840
Enterprise Value (cr)	Rs22,343
Outstanding Shares (cr)	19.3
Free Float	50.0
Dividend Yield	0.3%
52 week high	Rs1,399
52 week low	Rs441
6m average volume (lacs)	0.03
Beta	1.04
Face value	Rs1

Shareholding (%)	Q2FY21	Q3FY21	Q4FY21
Promoters	47.9	46.7	46.7
FII's	19.4	23.4	25.7
MFs/Insti	19.8	16.8	14.8
Public	12.9	13.1	12.9
Total	100.0	100.0	100.0
Promoter pledge %	Nil	Nil	Nil

Price Performance	3 month	6 Month	1 Year
Absolute Return	-3.6%	32.1%	146.8%
Absolute Sensex	0.0%	0.5%	35.9%
Relative Return*	-3.6%	31.6%	110.9%

*Over or under performance to benchmark index



Y.E Mar (Rs. cr.) Consolidated	FY21A	FY22E *	FY23E
Sales	6,083	9,741	10,757
Growth (%)	28.0	60.1	10.4
EBITDA	613	1,081	1,237
EBITDA Margins%	10.1	11.1	11.5
PAT Adj.	319	657	766
Growth (%)	9.1	105.8	16.6
Adj.EPS	15.8	34.6	40.3
Growth (%)	9.1	105.8	16.6
P/E	66.7	32.4	27.8
P/B	10.1	8.0	6.5
EV/EBITDA	35.6	20.4	17.4
ROE (%)	16.4	26.9	25.2
D/E	0.6	0.5	0.4

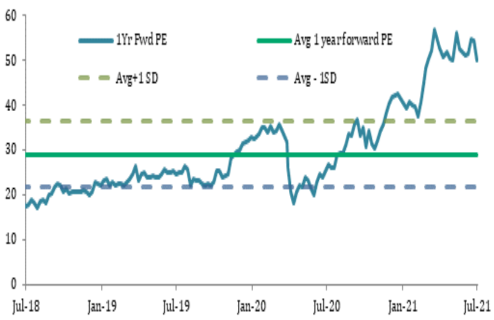
** FY21 & FY22 data not comparable*

Saji John
Research Analyst

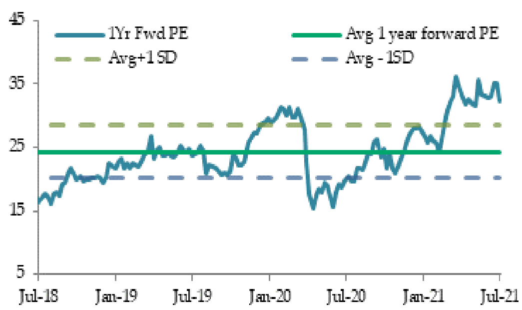
Standalone Valuation has significantly re-rated in the last 1yr, from P/E band of 30x-45x, largely propelled by CG Power Acquisition.

1Yr Fwd P/E (3yr Historical Valuation)

Standalone



Consolidated (Post Acquisition)



Source: Bloomberg, Company, Geojit Research.

Re-rating of the standalone valuation

During the last 1 year, valuation has significantly re-rated and its P/E band has expanded from 30x (3yr historical avg.) to 45x. This was largely due to the strategic move to de-risk from the cyclical nature of automobile industry by acquiring CG Power. The strategic concept broke down the growth elements into organic growth (TI-1), a VC-style approach to medium term growth (TI-2) and inorganic growth of acquiring companies and turning them around. Last year, acquiring 82yr old fraud and debt hit, CG power & Industrial Solution ltd for Rs.800cr was a key element of the T3 strategy. In addition, the TI-2 strategy to foray into full 3-W electric manufacturing and optic lens supported the valuation. TII is currently trading at 31x on a 1 year forward basis, which is inline with its historical valuation of 30x on a standalone basis and 25x on a consolidated basis. Given the strong earnings outlook of 60% CAGR over FY21-23E and the company's modest target of Rs.5000cr of revenue and Rs500cr PBT for CG for long term, we value TII at 32x on FY23E and arrive at a target price of Rs1,306.

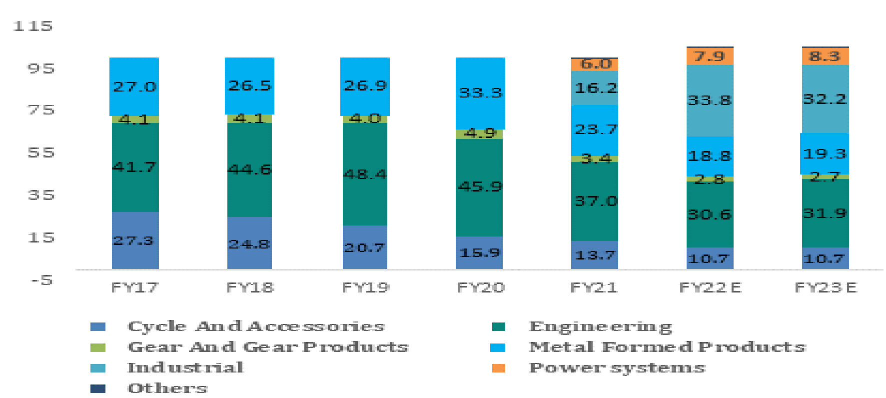
In the last one year share holder value creation has grown at 3x and after de-merger in 2017 it has grown by 5x.

Peer Comparisons

Company	Sales			EBITDA Margin %			P/E			ROE		
Year	**FY21**	**FY22E**	**FY23E**	**FY21**	**FY22E**	**FY23E**	**FY21**	**FY22E**	**FY23E**	**FY21**	**FY22E**	**FY23E**
Endurance Technologies.	6,547	7,859	9,077	16.3	16.9	17.2	45x	34x	20x	14.3	16.9	17.0
Bosch Ltd	9,716	12,145	13,774	11.9	13.5	14.7	37x	33x	27x	4.9	12.7	13.9
Minda Industries Ltd.	6,374	7,756	9,181	11.4	13.6	14.0	93x	38x	30x	9.9	17.5	19.7
Sundram Fastners	3644	4581	5406	18.2	19.1	20.1	46x	32x	25x	16.5	20.3	21.9
Tube Investment Ltd (TII)	6,083	9,741	10,757	10.1	11.1	11.5	64x	31x	27x	16.3	26.9	25.2

Source: Bloomberg, Company, Geojit Research.

Tube Investment revenue mix %. (Post Acquisition)



Source: Company, CMIE, Geojit

Aim to de-risk from the auto sector

Despite weak auto sales and Industrial activities we expect that the TII diversified approach to yield result in the long term. The strategy to de-risk from auto industry and foray into new projects will lead to value migration and margin expansion. 70% of the revenue is contributed by auto sector, and CG power is expected to reduce its dependence on the automobile industry. Through CG Power, TII will enter three new businesses— including motors for industrial purposes, railways and power. The acquisition has fairly given a good opportunity for the company to be a market, that is number one and number three in the various segments with secular growth at reasonable valuations. India's focus in the coming years is expected to be largely on strengthening infrastructure, investment in renewable energy and electric vehicles. This clearly enhance TII's strategic move to cater the future needs of the market with newer products.

Top-line to reach Rs.10,000cr and Margin to expand by 140bps.

Snapshot of Consolidated P&L Statement (Rs. cr.)	FY17	FY18	FY19	FY20	*FY21	*FY22	FY23
Total Revenue	4,541	5,062	5,828	4,813	6,083	9,741	10,757
Total Revenue Growth (%)	-	11.46	15.13	-17.42	28.0%	60.1%	10.4%
Total Expenses	4,313	4,832	5,445	4,388	5,762	9,056	9,949
Total Expenses Growth (%)	-	12.0	12.7	-19.4	31.3	57.2	9.9
Profit after Tax (PAT)	182	169	260	313	305	667	776
PAT Growth (%)	-	-7.3	54.2	20.5	-2.7	119.0	16.3
Operating Profit Margin (%)	9.0	8.1	9.5	11.8	10.1	11.1	11.5
Net Profit Margin (%)	4.0	3.4	4.5	6.6	5.0	6.9	7.2
Basic EPS (₹)	9.7	9.0	13.9	16.7	15.8	34.6	40.3

*** FY21 & FY22 data no comparable**

On a Consolidated basis, TII is trading at 26x FY23EPS which is attractive at CMP.

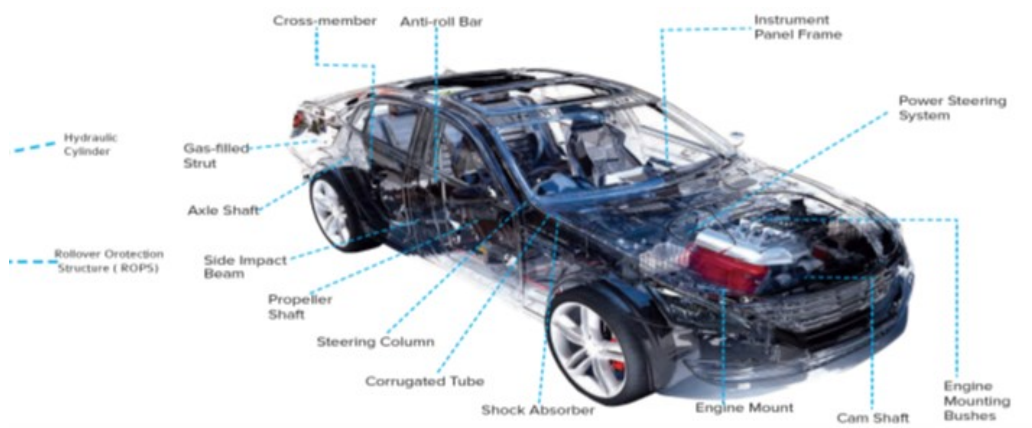
The auto industry is witnessing strong rebound from Covid pandemic and more importantly, the diversified product mix is expected to boost TII's growth. TII can grow at 6-8 per cent a year over a cycle, but the company set a higher threshold of around 17 per cent. The only way to achieve this is through inorganic and organic growth in future. CG Power has a strong market presence. It is among the world's top 10 transformer manufacturers. In India, it is a leader in motors, and number two in switchgears. It competes with Bharat Heavy Electricals, ABB, Siemens and Schneider in the automobile and railway businesses. It is, in short, an asset worth owning. TII has set a modest target for CG, of around Rs 5,000 crore of revenue and Rs500crore profit before tax in four to five years, by which time it is expected to become debt-free. In addition, the new scrappage policy is likely boost demand for new vehicles in a phased manner. TII's entry into 3W electric manufacturing will also mark the group's foray into a automobile manufacturer. It is planning to start production of 3W by Q4FY22. On a Consolidated basis, TII is trading at 26x FY23EPS which is reasonable at CMP.

Engineering Business

Engineering to business grow at 20% CAGR over FY 21-23 estimate

The Revenue for the full year was at Rs.2,317cr. compared with Rs.2,258cr. in the previous year. Profit before interest and tax for the year was at Rs.251 Cr. as against Rs.264cr. in the previous year. For the year ended March 2021, ROCE of the division improved to 43% as against 40% in the previous year. The segment constitutes 50% of the overall revenue mix. The segment has an extensive application in the manufacture of hydraulic cylinders for commercial vehicle, tippers and earth moving equipment. Despite slowdown in the Auto, construction and material handling segments, better cost management and co-partnering with OEMs and Global majors in the development of new products enabled the business to build a resilient edge. The transition to BS-VI emission norms has mandated the new scooter to Telescopic Front Fork (TFF) systems. It will provide the engineering business a major opportunity for growth in the tubular front fork segment. Some of the key products developments during the year: 1) TFF 56:29 tubes in Electric Vehicle and Scooter models. 2) Micro alloy frame tubes. 3) Higher thickness tubes and Tie Rods to balance the increase engine Torque in Commercial Vehicles. As part of the strategy for future growth, the company has expanded capacity at Rajpura plant to address demand. TII also claims that the de-bottlenecking of the southern plant will cater to the export market for large diameter tubular products. In addition, going forward the company will also identify growth from innovative product lines for new market and growth from large tubular products. The segment has registered a growth of 57% for Q4FY21 and expect to grow at a CAGR of 20% over FY21-23E.

Source: Company, Geojit



Source: Company, Geojit

The segment contributes 32% of the revenue mix.

Metal Forming business

The segment is into Manufacturing and supply of sheet metal formed products for Industrial chains, Fine blanked components, Motor castings and Agir- Blades for the Automation, Industrial, Railway and Agriculture segments. Revenue for the full year was at Rs.1,274cr. compared to Rs.1,399cr. in the previous year. Profit before interest and tax for the year was at Rs.87 Cr. as against Rs.123cr. in the previous year. For the year ended March 2021, ROCE of the division was at 22% compared to 27% in the previous year. The segment contributes 32% of the revenue mix. Despite weak OEM sales, new models of chains and sprockets with differentiated features and performance were launched in the Aftermarket. Chains kits where also developed for high end motorbikes. In addition, customer oriented products where launched for select geographical markets. TII's recognised its market leadership as the major supplier of door-frames and fined blanked components for car manufacturers. In the last few quarters, the company increased its customer engagement and partnered with auto majors to develop new products for the BS –VI migration, in Passenger vehicle (PV), TFF products for the 2W segment and critical safety parts in seating solution for both Indian and global market. Another key area for the growth will be on the Railway sector. With the government of India's focus on the expansion and modernization of the railway networks, the sector is poised for accelerated growth. Engineering expertise, focus on quality and value added services has earned TII as a trusted supplier. For Q4FY21 the segment grew by 29%YoY and expect to register a growth of 16% CAGR over FY21-23 estimates owing to strong traction in the Railway sector and meaningful recovery in the auto sector.

We expect the segment to register a growth of 16% CAGR over FY21-23 estimates owing to strong traction expected in the Railway sector and meaningful recovery in the auto sector

Cycling Business

Market for premium cycles dropped significantly due to economic slowdown and poor customer sentiments. In the geared segment, margins were eroded due to poor quality alternatives in the unorganised space. The commuting segment declined due to the absence of government promoting dedicated cycling lanes in urban cities. The segment made a strategic exit from the Institutional business due to higher working capital. The Revenue for the full year was at Rs.847cr. compared with Rs.781cr. in the previous year. Profit before interest and tax for the year improved to Rs.44 Cr. as against Rs.26cr. in the previous year. For the year ended March 2021, ROCE of the division improved to 62% compared to 15% in the previous year. This was largely, driven by relentless cost control initiatives and effective working capital management through robust planning process and de-stocking of slow moving models. It also blazed the segment with multiple innovation for the first time in the industry, especially the night vision handle bar on Hercules Jackal RF brand. It also rolled out a concerted brand visibility drive at 275Multi brand outlets and 1200 sub-dealer counters across all region. With a long term strategy to become the foremost business in the T1 fold, the bicycles business has laid down ambitious plan to accelerate growth through exports and expanding its presence in the spares, accessories and fitness segment. During Q4FY21, Cycle revenue grew by robust 139%YoY. We expect the segment to register a growth of 14% CAGR over FY21- 23 estimates. TI Cycles is the leader of the 'specials' segment with nationwide presence through a network of around 11,500 primary and secondary dealers, 4 zonal offices and 4 warehouses. It manufactures 4 million cycles a year from 3 plants across India – Chennai in the South, Nasik in the West and Noida in the North. **Best known for its flagship bicycle brands –BSA, Hercules, Montra and Mach City**.

Best known for its flagship bicycle brands BSA, Hercules, Montra and Mach City.

We expect the segment to register a growth of 14% CAGR over FY21- 23 estimates.

Shanti Gears (SGL)

SGL, a subsidiary of the company, registered revenue of Rs.75cr as against Rs.43cr. in the corresponding quarter of the previous year. PBT for the quarter was at Rs.12cr as against Rs.0.5cr. in the corresponding quarter. Revenue for the full year was Rs.224cr versus Rs.249cr. PBT for the year was at Rs.26cr as against Rs.33cr in the previous year. The company is into Industrial Gearing solutions and design & manufacture of Gears, Gearboxes, Geared Motors & Gear Assemblies for all major industrial application. Spanning over four decades of manufacturing facilities.

TIIs,70.4% ownership has opened up enormous possibilities to explore new frontiers in technology, capabilities, product segments and market. SGL continue to look at enlarging its market presence, create a robust business channel and launch new products to meet the growing expectation of the customers. During Q4FY21, Revenue from operation grew by 12% and margin came at 17%(130bps,QoQ). Focus on cost optimisation and lower capital employed enabled the firm to expand the margin. We expect the segment to register a growth of 14% CAGR over FY21-23E

We expect the gear segment to register a growth of 14% CAGR over FY21- 23 estimates

Investment Rationale

Strong road map to cut reliance on auto sector

Tube Investment of India (TII) ia adopting a three– pronged strategy to de-risk from the cyclical nature of the auto sector. Firstly, it is very capital intensive and secondly it does not create an ability to generate consistent and constant cash flow. The company has identified three growth engines. TI-1 refers to the existing division, T1-2 refers to a venture capital-led approach growth such as optic lenses and electric 3-wheeler and thirdly TI-3, Inorganic growth of acquiring companies and turning them around like CG Industrial & Power. Last year Rs800cr acquisition of fraud and debt hit CG power & Industrial was a key element of the T3 strategy. CG power is also expected to help TII to reduce its dependence on the automobile industry, which accounts for 65-70 percent of revenue. According to the company the organic business or TI-1 is expected to grow at 8-10%, TI-2 is yet to become operational and T3 or Inorganic growth which has started its operation.

The company has identified 3 growth engines T1– organic growth, T2– Venture approach and T3 as Inorganic growth.

Incremental opportunity from change in automotive regulation

TII foresees a significant growth opportunity for the two wheeler segment, with the country transitioning into from BS-IV to BS-VI emission norms. Some of the new motorcycle and scooters will have to mandatorily move to telescopic front fork systems. This will provide a major business opportunity for growth in the tubular front fork segment. As part of the strategy the company has expanded its Raipura plant capacity in North to address future demand. This de-bottlenecking will provide additional headroom in the south plant to cater the export market for large diameter tubular products. Going forward, in addition to the revival the TII would be focusing on three streams of opportunities TFF in Electric Vehicle and scooter models, Micro alloy frame tubes and Higher thickness tubes and Tie Rods to balance the increased engine torque in Commercial Vehicles. We believe that the demand for Large diameter pipes for the manufacturing of hydraulic cylinders in tippers and earth moving equipment's to recover, owing to revival in the construction and infrastructure activities, which will result in higher margin for the company.

Incremental growth from Scrappage policy and BS–VI regulation

Acquiring CG Industrial & Power

CG Power is among the world's top 10 transformer manufacturers, second in transformers & switch gears in India and first in motors manufacture in the country. The 82yr old company caters to over 21 industries and has more than 20 manufacturing units.. TII had signed a share purchase agreement with CG Power on 7th August 2020 to acquire around 56.61% stake for investment of Rs 700cr. and later announced an additional investment of Rs100cr and increased to 58.58%. It had emerged the successful bidder following a Swiss challenge bidding process initiated by the lenders of CG Power. It had a domestic debt of Rs 2,161cr. as of March 31, 2020. which took a hair cut at Rs1100cr. The company has got shareholders' approval for a total amount of Rs 1,760cr. to be used for giving loans, investing in securities or giving guarantee to the borrowings of CG Power and for investing in its own subsidiaries. The TII board, at its meeting held on November 4, had approved the issue of corporate guarantees of up to Rs1,400 crore in favour of CG Power's lenders. And remaining Rs350 from the Azim Premji Trust and SBI Mutul Fund schemes. The inorganic growth will brings:

TII has set a modest target of for CG, Rs.5000cr of revenue and Rs500cr PBT in four to five years and expected to be debt free.

- ⇒ Higher threshold for growth at around 17% top-line per year over a period of time.
- ⇒ To Reduce the dependence on auto (70% of the revenue) which is not cyclical in nature.
- ⇒ The right investments and bringing new partners would be another focus.
- ⇒ Rare opportunity to acquire a market leader, that is number one and number three in the various segments, with secular growth at fairly reasonable valuations.
- ⇒ TII (Through CG Power) to enter three new businesses, including motors for industrial purposes, railways and power.
- ⇒ To invest in in R&D, since all three businesses are technology-intensive, attracting partners and focusing on people, suppliers and customers.
- ⇒ Share of market for Diesel Exhaust Fluid (DEF) post BS-VI Implementation.

TII has set a modest target of Rs. 5000cr of revenue and Rs500 cr PBT in four to five years and expected to be debt free. A snapshot of the Revenue and PAT of both the company, prior to the acquisition.

(Rs. cr.)	Tube Investment					CG Power & Industrial				
Year	FY17	FY18	FY19	FY20	FY21	FY17	FY18	FY19	FY20	FY21
Revenue	4,109	4,598	5,286	4,276	4,256	4,761	5,106	5,356	3,169	2,526
PAT	159	137	244	331	125	125	19	-1417	-1799	-209

New Business & Adjacencies

Foray into electric three wheeler Manufacturing

Foray into electric three wheeler Manufacturing and expected to commence production at the start of CY23

Tube Investments India (TII) to enter complete automobile manufacturing to make and sell electric three-wheelers. The technology for the EV three-wheeler, for which a prototype has already been developed, would be a combination of in-house as well as design support from a Korean company. The company has set an outlay of Rs200cr and manufacturing is expected to start at the beginning of CY23. In January 2019, one of the Group company Carborundum Universal Limited was one of the top 10 companies which got lithium ion battery technology from the Indian Space Research Organisation. The company said that it is not competing against some of its existing customers business as they do not supply too much into three-wheeler space today. It also added that there are number of factors that influenced the company for adopting EV, especially government's plan to make 75% of 3-wheeler electric by 2030. We believe that there are lot of factors like eco-friendly mobility, dropping prices of battery, reduction in the total cost of ownership owing to government subsidy will be idle for the company to switch to EV.

Foray into optic lens manufacturing

Foray into optic lens for vision products. The company is planning at the initial phase around a half a million lenses a month

Tube Investments of India Ltd has filed a Industrial Entrepreneurs memorandum on Nov 14, 2019 for setting up a new project for Manufacturing optical glass lens for lens assembly, camera assembly, and electronics for vision system. The location of the unit would be Chittoor in Andhra Pradesh. As a first step, TII has identified growth opportunity in the vision products like 360 degree cameras and lane watch camera for the automotive industry. A plant to manufacture optical glass lens has been set up along with a Korean technology partner. Acquiring capabilities to manufacture vision components would provide leverage towards climbing the value chain, which supports multiple sectors and industries. The company is planning at the initial phase around a half a million lenses a month and expected to do that towards the end of April, May, June quarters of FY22 and then if the company is able to maintain quality, then will start thinking about an expansion plan.

Truck body building and TMT Bar Business

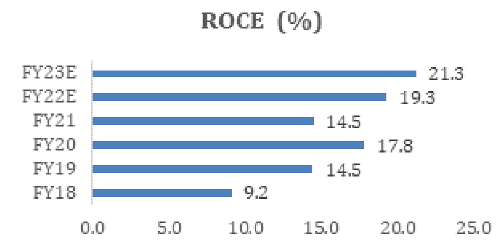
Tube Investments under the brand name **TI Macho TMT Bars** started it operation on Nov 28 2018., through a licensing agreement with Sakthi Group for the manufacturing and marketing of the bars using TII's technology. It is one of the preferred solution provider in the Indian infrastructure space, by adopting advanced technologies, building synergies across value chain and adhering to the guiding value of the group to emerge as one amongst the top 3 national brands. Currently, TI Macho TMT bars is available in 2 variants,- 500D and 550D. The Truck body building Business was impacted greatly by the depressed market conditions in the auto sector, the new GST guidelines, product standardization and shortfall in vendor capability. The business is planning to shift from the outsourced model of operations and to set up its own manufacturing facilities in Chennai, Bawal, Chakkan and Kolkata for product development, standardization and scalability.

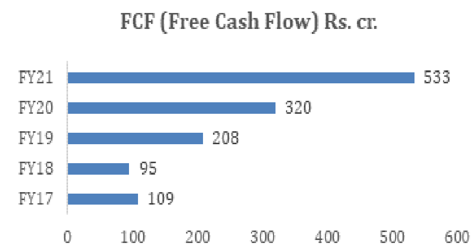
Strong balance sheet & Free Cash Flow

Strong ROCE to trade above 25% and continue to keep a high cash flow

The strategic focus of the business was driven by an aggressive push for building a resilient edge underpinned with a relentless focus on the 4 cardinal metrics of revenue growth, profitability, return on capital employed and free cash flow. Despite lockdowns ROE came at 16% and expected to reach above 25% over FY21-23E and also the company continue to keep a very high free cash flow. The company's Debt/Equity stands at 0.6 as of FY21 and expected to come down to 0.4 by FY23E.

Consistent growth in ROCE and FCF generation

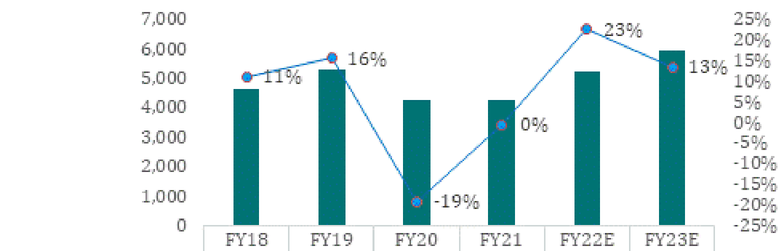




Source: Geojit, Company.

We expect the standalone revenue to grow by 18% CAGR over FY21-23E owing to superior product mix and value migration.

Standalone Revenue Growth



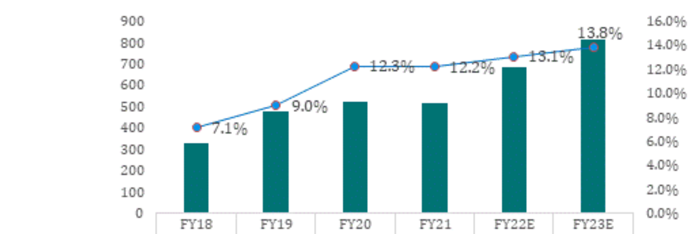
	FY18	FY19	FY20	FY21	FY22E	FY23E
Revenue (Rs. cr.)	4,656	5,287	4,277	4,256	5,223	5,927
Growth %	11%	16%	-19%	0%	23%	13%

Source: Geojit, Company.

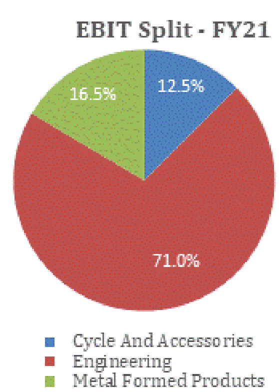
TII has delivered robust return of 58%YoY for Q4FY21 driven by strong 57%YoY growth for engineering products and 139%YoY growth recovery in the cycling business. Metal formed business growth came at 29%YoY, largely due to Railways revenue. The company was consistent in delivering growth in the Topline. During the last 3 years the company has registered a CAGR growth of 2% over FY17-20 and if you keep aside FY20 & FY21 the growth was 15% YoY. During this time, TII 70% revenue comes from Automobile sector and it has outperformed the industry growth by 5% over the same period. We believe that, going forward the revival and the structural change in the auto sector likely to benefit TII. The standalone business to register a growth of 18% CAGR over FY21-23 estimates. As a long term strategic move, Tube investment is adopting a 3 pillar strategy to insulate itself from the cyclical nature of the auto sector. The company has identified T1 as the existing division or organic growth, T2 as a venture capital style approach for medium term growth and finally T3, growth through inorganic such as CG Power & Industrial solutions. The Acquisition of debt ridden CG power for Rs800cr in FY20 was a gamer changer for the company. Despite being at dire strait due to mismanagement and fraud, the 82yr old company has a strong presence in the market. It is the world's top 10 transformer manufacturer, and in India, it is a leader in motor and number two in switch gears. The company has set a modest target of Rs5000cr of revenue and Rs500cr PBT in four to five years and expect to be debt free. Similarly, TII's foray into complete Electric 3W manufacturing and optic lens will boost valuation and stronger revenue visibility in the long term. We expect the consolidated revenue to touch Rs10,000cr by FY23 on account of organic and inorganic form.

On standalone basis, Margin to expand by 160bps over FY21 to FY23 estimates. The company could expand 510bps in margin over FY18-21 from 7% to 12.2%

Standalone Margin to expand by 160bps



	FY18	FY19	FY20	FY21	FY22E	FY23E
EBITDA (Rs. cr.)	325	476	525	519	684	818
Margin %	7.1%	9.0%	12.3%	12.2%	13.1%	13.8%



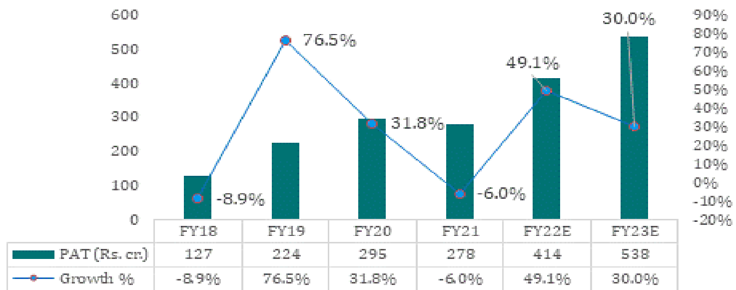
Source: Geojit, Company.

Consistent growth in margin

TII has a consistent track record in expanding the margin with superior and innovative product mix. The company could expand 520bps in margin over FY18-20 from 7% to 12.2%. In the last 2 quarters there is healthy improvement in segment's EBITDA margin. For Q3, margin came at 13.6% and Q4FY21, came lower at 9.2% respectively due to factoring CG power consolidation. Management highlighted that the current profitability is sustainable and should see further improvement. However, rise in steel price will put pressure on the margin for near term. We believe that the core business is witnessing cyclical recovery and normalisation. Additionally growth for T1 will be coming from inorganic growth of CG Industrial and power and expected to see healthy ramp up in the coming quarters. CG registered a revenue growth of 26%YoY and 25%QoQ. Margin for Industrial segment came at 15% whereas power segment incurred positive margin of Rs.4cr compared to Rs-15cr. for the preceding year. Further growth for TII will be led by acquisitions under TI-3. CG Power is expected to see healthy ramp up. 4Q results for CG Power saw 25% QoQ revenue growth to Rs7bn, with EBITDA margin of 11% led by the Industrial business. TII, consolidated CG Power in Dec-20. According to the company, further acquisitions is on the way, but only once the consolidated balance sheet gains strength from internal cash flows at TI and CG Power.

On a standalone basis, PAT to grow by 39% CAGR over FY21-23E and consolidated Net margin to reach by 10% by FY23E.

PAT to grow by 39% CAGR over FY21-23E



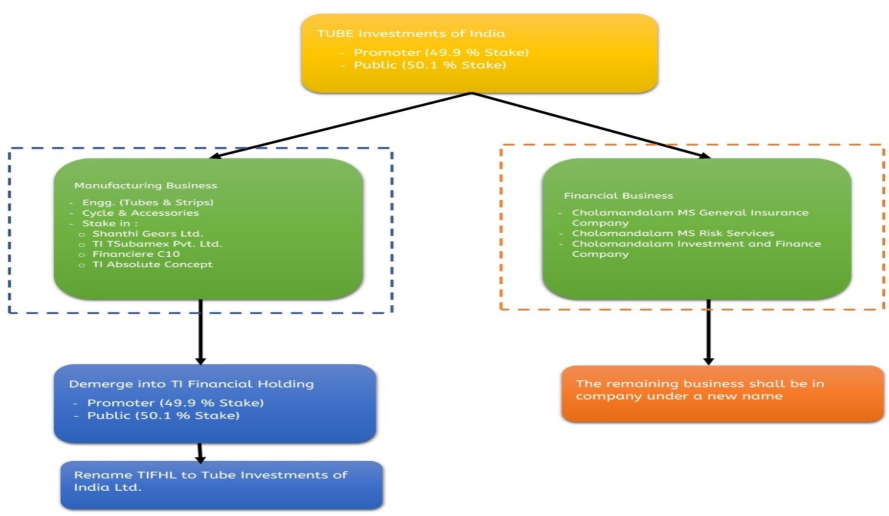
Source: Geojit, Company.

About the company

Tube Investments of India Limited (TII) is a flagship Company of the renowned Murugappa Group, India's leading business conglomerate. Established in 1900, with its Headquarters in Chennai, the Group has 28 businesses, with nine listed companies traded in NSE & BSE. Major companies of the Group include Carborundum Universal Ltd, Cholamandalam Investment and Finance Company Limited, Cholamandalam MS General Insurance Company Limited, Coromandel International Limited, Coromandel Engineering Company Limited, E.I.D. Parry (India) Limited, Parry Agro Industries Limited, Shanthi Gears Limited, Tube Investments of India Limited and Wendt (India) Limited. With a total turnover of 381 Billion and a people strength of more than 51,000, the Group's geographical footprint is spread across India and the globe. Tube Investments of India Limited (TII) is one of India's leading manufacturers of a wide range of products for major industries such as Automotive, Railway, Construction, Mining, Agriculture, etc. The Company's 3 main verticals are Engineering, Metal Formed Products and Bicycles. In line with its growth strategies, the Company has forayed into TMT bars and Truck Body Building business and is additionally exploring opportunities in optic lens and other vision systems for the Auto industry.

TII demerged in FY17 and become a complete engineering company to unlock value.

TII demerged in FY17 to unlock value



Consolidated Financials

PROFIT & LOSS

Y.E March (Rs Cr)	FY19A	FY20A	FY21A*	FY22E *	FY23E
Sales	**5775**	**4752**	**6083**	**9741**	**10757**
% change	*14.9*	*-17.7*	*28.0*	*60.1*	*10.4*
EBITDA	**546**	**558**	**613**	**1,081**	**1,237**
% change	*9.5*	*11.8*	*10.1*	*11.1*	*11.5*
Depreciation	161.6	185.3	251.3	321.9	351.2
EBIT	**384**	**373**	**362**	**759**	**886**
Interest	52.8	30.4	40.9	74.6	77.5
Other Income	42.6	45.4	111.4	175.3	193.6
PBT	**389**	**409**	**418**	**870**	**1,012**
% change	*64.0*	*4.9*	*2.2*	*108.3*	*16.3*
Tax	129.5	95.4	113.0	202.7	235.8
Tax Rate (%)	*33.2*	*23.3*	*23.3*	*23.3*	*23.3*
Reported PAT	**260**	**313**	**305**	**667**	**776**
Adj.	15.3	20.5	-14.7	10.0	10.0
Adj. PAT	**245**	**293**	**319**	**657**	**766**
% change	*57.7*	*19.7*	*9.1*	*105.8*	*16.6*
No. of shares (cr)	18.8	18.8	19.3	19.3	19.3
Adj EPS (Rs)	**13.9**	**16.7**	**15.8**	**34.6**	**40.3**
% change	*57.7*	*19.7*	*9.1*	*105.8*	*16.6*
DPS (Rs)	2.7	5.2	6.3	6.3	6.3

** Not Comparable*

BALANCE SHEET

Y.E March (Rs Cr)	FY19A	FY20A	FY21A*	FY22E *	FY23E
Cash	59	49	450	246	537
Accounts Receivable	690	537	1279	1201	1326
Inventories	815	559	1109	1175	1293
Other Cur. Assets	92	91	665	294	324
Investments	144	198	381	414	545
Gross Fixed Assets	1701	1962	2842	3289	3735
Net Fixed Assets	1098	1183	1812	1937	2032
CWIP	69	58	135	135	135
Intangible Assets	319	320	1152	1162	1172
Def. Tax (Net)	33	31	81	107	118
Other Assets	105	102	145	240	265
Total Assets	**3424**	**3127**	**7209**	**6910**	**7748**
Current Liabilities	1263	969	2615	1717	1999
Provisions	0	1	11	13	15
Debt Funds	508	312	1326	1376	1276
Minority Interest	177	111	1084	1084	1084
Equity Capital	19	19	19	19	19
Reserves & Surplus	1457	1715	2152	2699	3354
Shareholder's Fund	1475	1734	2172	2718	3374
Total Liabilities	**3424**	**3127**	**7209**	**6910**	**7748**
BVPS	**78**	**92**	**84**	**112**	**146**

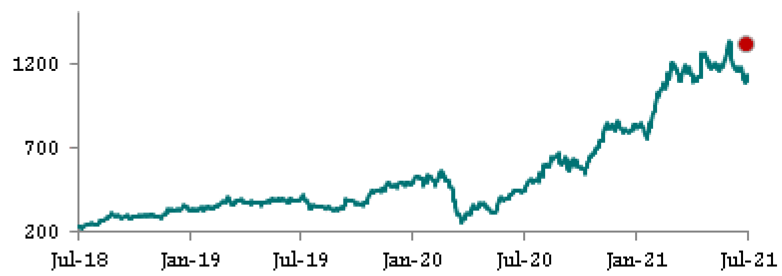
CASH FLOW

Y.E March (Rs Cr)	FY19A	FY20A	FY21A*	FY22E*	FY23E
Net inc. + Depn.	406	478	556	989	1127
Non-cash adj.	177	109	671	277	313
Other Adjustments	-114	-119	-113	-203	-236
Changes in W.C	25	116	372	-584	-28
C.F - Operating	**493**	**585**	**1486**	**479**	**1177**
Capital exp.	-225	-276	-1973	-489	-588
Change in inv.	0	0	-77	0	0
Other invest.CF	29	30	0	0	0
C.F - Investing	**-196**	**-246**	**-1973**	**-489**	**-588**
Issue of equity	3	47	0	0	0
Issue/repay debt	-322	-214	973	-25	-178
Dividends paid	-66	-106	-121	-121	-121
Other finance.CF	107	129	0	0	0
C.F - Financing	**-280**	**-273**	**853**	**-145**	**-298**
Chg. in cash	18	66	366	-155	292
Closing cash	-31	35	401	246	537

RATIOS

Y.E March	FY19A	FY20A	FY21A*	FY22E*	FY23E
Profitab. & Return					
EBITDAmargin (%)	9.5	11.8	10.1	11.1	11.5
EBIT margin (%)	6.7	7.9	5.9	7.8	8.2
Net profit mgn.(%)	4.2	6.2	5.2	6.7	7.1
ROE (%)	17.8	18.2	16.4	26.9	25.2
ROCE (%)	9.6	11.7	9.3	14.8	14.8
W.C & Liquidity					
Receivables (days)	44.2	47.1	54.5	46.5	42.9
Inventory (days)	49.8	52.7	50.0	42.8	41.9
Payables (days)	95.7	107.7	148.9	111.8	77.1
Current ratio (x)	1.1	1.1	1.3	1.5	1.6
Quick ratio (x)	0.5	0.5	0.6	0.7	0.8
Turnover & Levg.					
Gross asset T.O (x)	3.6	2.6	2.5	3.2	3.1
Total asset T.O (x)	1.7	1.5	1.2	1.4	1.5
Int. covge. ratio (x)	7.3	12.3	8.8	10.2	11.4
Adj. debt/equity (x)	0.4	0.2	0.6	0.5	0.4
Valuation ratios					
EV/Sales (x)	3.8	4.5	3.6	2.3	2.0
EV/EBITDA (x)	39.7	38.4	35.6	20.4	17.4
P/E (x)	87.0	72.7	66.7	32.4	27.8
P/BV (x)	14.4	12.3	10.1	8.0	6.5

PRICE HISTORY (LAST 3 YEARS)



Dates	Rating	Target
14.07.2021	Buy	1,306

Source: Bloomberg, Geojit Research.

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small caps
Buy	**Upside is above 10%**	**Upside is above 15%**	**Upside is above 20%**
Accumulate	-	**Upside is between 10% - 15%**	**Upside is between 10% - 20%**
Hold	**Upside is between 0% - 10%**	**Upside is between 0% - 10%**	**Upside is between 0% - 10%**
Reduce/sell	**Downside is more than 0%**	**Downside is more than 0%**	**Downside is more than 0%**
Not rated		-	

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.
Accumulate: Partial buying or to accumulate as CMP dips in the future.
Hold: Hold the stock with the expected target mentioned in the note.
Reduce: Reduce your exposure to the stock due to limited upside.
Not Rated: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.
The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/ return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or

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SAJI JOHN

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