

Retail Equity Research (South India Focus)

TUBE INVESTMENTS OF INDIA

Auto Ancillary

BSE CODE : 540762  
BLOOMBERG CODE: TII:IN

NSE CODE: TUBEINVEST  
SENSEX : 55,550

12Months Investment Period
Rating as per Mid Cap

CMP Rs1,557 TARGET Rs 1,746 RETURN 12%



(Closing: 11-03-2022)

Revenue in-line with estimates

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

- Q3FY22 revenue grew by 4.3%QoQ. This was largely driven by double digit growth from the export market and 8%QoQ from CG power and Industrials.
- Despite inflated RM cost, TII margin improved 128bps QoQ owing to superior product mix and cost pass through benefit.
- CG Industrial & Power Co, which provides power and industrial system related service in India and abroad, will continue to enhance TII product portfolio and revenue mix.
- TII's entry into 3W electric manufacturing, will mark the group's foray into automobile manufacturer from a ancillary player. Due to supply shortage extended the launch to Q2FY23.
- Given the strong fundamentals and strategic change adopted in the company's segment mix, we value TII on a consolidated basis and recommend Accumulate with a target price of Rs1,746 at CMP.

Revenue supported by superior product mix

Q3FY22 revenue grew by 4.3%QoQ. This was largely driven by double digit growth from the export market and 8%QoQ from CG power and Industrials. The standalone business including shanti gears., which largely consist of the legacy business grew by 16% YoY(0.8% QoQ). Out pacing the auto industry growth. The company reiterated that the export share in the engineering business (larger pie) is currently 20% and likely to grow to 30% in 2-3 year, and for industrial business 40% coming from export. Targeting overall 30% share in the export business in the medium term.

Long term growth strategy intact

TII's long term strategy to insulate itself from the cyclical nature of the auto sector through organic, inorganic growth and entering into new venture such as an EV OEM is largely in place for the company. The growth share in the export market for legacy products like engineering and TI cycles are growing in double digit due to entering newer geographies and having export incentives. The Acquisition of debt ridden CG power (52.6% stake) has become positive and registered a consolidated profit of 28%YoY. The company is well positioned to take the benefit of CG power's market leadership globally. 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.

Foray into Electric 3W manufacturing & 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. Due to semi conductor shortage, the company has extended the deadline to launch the vehicle in Q2FY23 from 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 and running for its certification process with an anchor customer.

Valuations

We expect TIIs diversified approach to de-risk from auto sector and concentrate more on other industrial segments like railways & powers through inorganic form to support long term revenue visibility. Additionally, Government's PLI scheme and China plus strategy by major international OEMs to bring incremental growth for medium term. We rollover and value TII on a consolidated basis, with a P/E of 26x FY24E EPS and recommend Accumulate rating with a target price of Rs.1,746 at CMP.

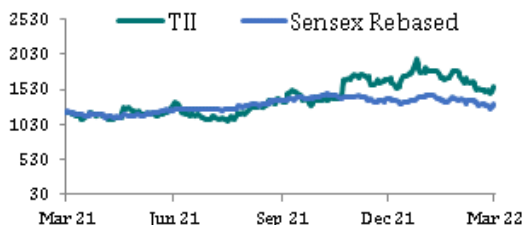
Company Data

Market Cap (cr)	Rs30,003
Enterprise Value (cr)	Rs31,277
Outstanding Shares (cr)	19.3
Free Float	53.5%
Dividend Yield	0.2%
52 week high	Rs2,021
52 week low	Rs1,052
6m average volume (lacs)	0.01
Beta	1.17
Face value	Rs1

Shareholding (%)	Q1FY22	Q2FY22	Q3FY22
Promoters	46.7	46.5	46.5
FII's	26.1	25.5	26.4
MFs/Insti	14.6	15.4	14.6
Public	12.7	12.6	12.5
Total	100.0	100.0	100.0
Promoter pledge %	Nil	Nil	Nil

Price Performance	3 month	6 Month	1 Year
Absolute Return	-6.4%	14.0%	28.9%
Absolute Sensex	-5.5%	-4.7%	8.3%
Relative Return*	-0.9%	18.7%	20.6%

\*Over or under performance to benchmark index



Y.E Mar Conolidated(cr)	FY22E	FY23E	FY24E
Sales	12,670	15,031	18,025
Growth (%)	108.1	18.6	19.9
EBITDA	1,571	1,954	2,343
EBITDA Margins%	12.4	13.0	13.0
PAT Adj.	873	1,041	1,295
Growth (%)	249.4	19.1	24.4
Adj.EPS	45.3	54.0	67.1
Growth (%)	240.2	19.1	24.4
P/E	33.7	28.3	22.8
P/B	9.8	7.3	5.6
EV/EBITDA	18.2	14.5	11.9
ROE (%)	33.7	29.6	27.9
D/E	0.5	0.3	0.2

Saji John  
Research Analyst

Consolidated Financials

Profit & Loss

Rs cr	Q3FY22	Q3FY21	YoY Growth %	Q2FY22	QoQ Growth %
Sales	3410	1700	100.6	3263	4.5
EBITDA	441	231	91.2	380	16.0
EBITDA margins	12.9	13.6	-64bps	11.6	128bps
Depreciation	91	68	33.1	91	-0.4
EBIT	350	231	51.7	380	-8.0
Interest	21.8	68.4	-68.2	91.4	-76.2
Other Income	26	12	108.0	26.3	-2.5
Exceptional Items	20	-11	0	0	0
PBT	374	148	152.6	294.2	27.1
Tax	-16	39	-141.5	62.3	-126.3
Share of profit from Associate	0	0	0	0	0
Minority Interest	111	1	0	46	0
Reported PAT	279	107	159.9	186.0	50.1
Adjustments	-20	11	0	0	0
Adj PAT	259	118	119.4	186.0	39.2
No. of Shares (cr)	19.3	19.3	0	19.3	0
EPS (Rs)	13.79	6.3	119.4	9.9	39.2

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	12,904	15,430	12,670	15,031	-1.8%	-2.6%
EBITDA	1,536	2,006	1,571	1,954	2.3%	-2.6%
Margins (%)	11.9	13.0	12.4	13.0	80bps	50bps
Adj. PAT	737	1,067	817	1,041	10.8%	-2.5%
EPS	38.2	55.3	42.3	54.0	10.9%	-2.4%

Consolidated Financials

PROFIT & LOSS

Y.E March (Rs Cr)	FY20A	FY21A*	FY22E *	FY23E	FY24E
Sales	4752	6083	12670	15031	18025
% change	-17.7	28.0	108.1	18.6	19.9
EBITDA	558	613	1571	1954	2343
% change	11.8	10.1	12.4	13.0	13.0
Depreciation	185.3	251.3	373.0	462.3	548.7
EBIT	373	362	1198	1492	1795
Interest	30.4	40.9	92.3	77.5	69.5
Other Income	45.4	111.4	101.4	150.3	180.3
PBT	409	418	1227	1565	1905
% change	4.9	2.2	193.8	27.5	21.8
Tax	95.4	113.0	208.6	399.0	485.9
Tax Rate (%)	23.3	23.3	17.0	25.5	25.5
Reported PAT	313	305	894	1041	1295
Adj.	20.5	-14.7	20.2	0.0	0.0
Adj. PAT	293	319	873	1041	1295
% change	19.7	9.1	249.4	19.1	24.4
No. of shares (cr)	18.8	19.3	19.3	19.3	19.3
Adj EPS (Rs)	16.7	15.8	45.3	54.0	67.1
% change	19.7	9.1	240.2	19.1	24.4
DPS (Rs)	5.2	6.3	2.4	2.4	2.4

\* Not Comparable

CASH FLOW

Y.E March (Rs Cr)	FY20A	FY21A*	FY22E*	FY23E	FY24E
Net inc. + Depn.	478	501	1267	1503	1843
Non-cash adj.	109	126	426	601	680
Other Adjustments	-119	-97	-209	-399	-486
Changes in W.C	116	-316	-1356	-569	-738
C.F.O	585	214	128	1136	1300
Capital exp.	-276	-461	422	-985	-913
Change in inv.	0	0	0	0	0
Other invest.CF	30	399	0	0	0
C.F - investing	-246	-63	422	-985	-913
Issue of equity	47	72	0	0	0
Issue/repay debt	-214	-799	-42	-177	-169
Dividends paid	-106	-42	-46	-46	-46
Other finance.CF	129	852	0	0	0
C.F - Financing	-273	11	-89	-224	-216
Chg. in cash	66	162	462	-73	171
Closing cash	35	197	988	915	1087

BALANCE SHEET

Y.E March (Rs Cr)	FY20A	FY21A*	FY22E *	FY23E	FY24E
Cash	49	629	988	915	1087
Accounts Receivable	537	1468	1909	1853	2222
Inventories	559	1109	1491	1753	2103
Other Cur. Assets	91	670	382	453	543
Investments	198	381	538	762	914
Gross Fixed Assets	1962	2842	3644	4395	5146
Net Fixed Assets	1183	1812	2241	2530	2732
CWIP	58	135	135	135	135
Intangible Assets	320	1152	774	784	794
Def. Tax (Net)	31	1300	139	165	198
Other Assets	102	121	312	371	444
Total Assets	3127	9782	8910	9721	11171
Current Liabilities	969	5300	3426	3215	3389
Provisions	1	28	17	21	25
Debt Funds	312	1384	1434	1334	1234
Minority Interest	111	898	1013	1138	1263
Equity Capital	19	19	19	19	19
Reserves & Surplus	1715	2153	3000	3994	5242
Shareholder's Fund	1734	2172	3019	4013	5261
Total Liabilities	3127	9782	8910	9721	11171
BVPS	92	84	148	200	264

RATIOS

Y.E March	FY20A	FY21A*	FY22E*	FY23E	FY24E
Profitab. & Return					
EBITDAmargin (%)	11.8	9.8	12.4	13.0	13.0
EBIT margin (%)	7.9	5.6	9.5	9.9	10.0
Net profit mgn.(%)	6.2	4.1	6.9	6.9	7.2
ROE (%)	18.2	12.8	33.7	29.6	27.9
ROCE (%)	11.7	6.7	18.6	17.0	17.2
W.C & Liquidity					
Receivables (days)	47.1	60.1	48.7	45.7	41.3
Inventory (days)	52.7	50.0	37.5	39.4	39.0
Payables (days)	107.7	142.5	96.3	81.8	70.9
Current ratio (x)	1.1	0.7	1.3	1.5	1.8
Quick ratio (x)	0.5	0.4	0.7	0.8	0.9
Turnover &Levg.					
Gross asset T.O (x)	2.6	2.5	3.9	3.7	3.8
Total asset T.O (x)	1.5	0.9	1.4	1.6	1.7
Int. covge. ratio (x)	12.3	8.4	13.0	19.3	25.8
Adj. debt/equity (x)	0.2	0.9	0.5	0.3	0.2
Valuation ratios					
EV/Sales (x)	6.1	4.9	2.3	1.9	1.6
EV/EBITDA (x)	51.7	49.9	18.2	14.5	11.9
P/E (x)	98.0	114.7	33.7	28.3	22.8
P/BV (x)	16.6	13.6	9.8	7.3	5.6



RECOMMENDATION SUMMARY (LAST 3 YEAR)



Dates	Rating	Target
13.07.2021	Buy	1,306
02.11.2021	Buy	1,660
14.03.2022	Accumulate	1,746

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/Neutral	-	-	-

**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/Neutral:** The analyst has no investment opinion on the stock.

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