



Investor's Delight: Tube Investments of India Ltd. (TI) "BUY"

22nd June, 2015

Sum of the Parts Valuation

Standalone business	Rs. cr	Per share value (Rs.)
Core FY15 PAT	Rs. 121 cr	
Estimated FY17 PAT	Rs. 186 cr	
Multiple assigned	15x	
Value of Standalone business	Rs. 2,790 cr.	Rs. 149
Chola. Investment & Finance Co. (CIFC)		
FY15 PAT	Rs. 435	
Estimated FY17 PAT	Rs. 626 crore	
Multiple assigned	15x	
Value of CIFC business before holding co. discount	9,390	
TI's stake	50%	
Holding Co. Discount	30%	
Value of CIFC	Rs. 3,287 cr.	Rs. 176
Cholamandam General Insurance		
FY15 PAT	Rs. 137 cr	
Estimated FY17 PAT	Rs. 308 cr	
Multiple assigned	15x	
Value of General Insurance business before holding Co. discount	Rs. 4,620 crs.	
TI's stake	74%	
Holding Co. Discount	30%	
Value of General Insurance Business	Rs. 2,393 cr.	Rs. 128
Shanthy Gears		
FY15 PAT	Rs. 9 cr	
Estimated FY17 PAT	Rs. 11 cr	
Multiple assigned	15x	
Value of Shanthy Gears Business before holding Co. discount	Rs. 165 cr.	
TI's stake	70%	
Holding Co. Discount	30%	
Value of Shanthy Gears Business	Rs. 81 cr.	Rs. 4
Total Estimated Business Value	Rs. 8,551 cr.	Rs. 457/share

CMP	Rs. 355
Target Price	Rs. 457
Upside	29%
Sector	Auto Parts, Engineering, Insurance
Beta vs Sensex	0.94
BSE/NSE Code	504973/TUBEINVEST
Bloomberg Code	TI :IN
52 Week High/low	Rs. 410 (6th May 2015)/Rs. 260.7 (13th Aug, 2014)
Face Value	Rs. 2
Share Capital	Rs. 37.38 cr (FY15)
Market Capitalization	Rs. 6,603 cr.
Book Value	Rs. 125 per share (FY15)
Shareholding Pattern (%)	As on March 2015
Promoters	48.86
FII's	13.24
DII's	12.24
Others	25.66
	Price Performance %
TI	1M: -0.02, 3M: -0.03, 6M: 3.03, 12M: 17.3



Outlook and Recommendation

Tube Investments (TI) is the flagship company of the Murugappa group with operations spanning across three divisions – cycles, engineering, and metal formed products. In addition, the company owns 74% of Chola MS general insurance business, has ~ 50 % stake in the listed Cholamandalam Finance & Investments Ltd (CIFIC) (Financial services company offering vehicle finance, home loans, home equity loans, SME loans etc.) and 70% stake in Shanthi Gears (the leading power transmission producer of gears, gear boxes, gear motors and gear assemblies).

Founded in 1900, Murugappa Group is one of India's leading business conglomerates. The Group has 28 businesses including ten listed Companies traded in NSE & BSE. Headquartered in Chennai, the major Companies of the Group include Carborundum Universal Ltd., Cholamandalam Investment and Finance Company Ltd., Cholamandalam MS General Insurance Company Ltd., Coromandel International Ltd., Coromandel Engineering Company Ltd., E.I.D. Parry (India) Ltd., Parry Agro Industries Ltd., Sabero Organics Ltd., Shanthi Gears Ltd., Tube Investments of India Ltd., and Wendt (India) Ltd. Market leaders in served segments including Abrasives, Auto Components, Transmission systems, Cycles, Sugar, Farm Inputs, Fertilisers, Plantations, Bio-products and Nutraceuticals, the Group has forged strong alliances with leading international companies like Groupe Chimique Tunisien, Foskor, Mitsui Sumitomo, Morgan Advanced Materials, Sociedad Química y Minera de Chile (SQM), Yanmar & Co. and and Compagnie Des Phosphat De Gafsa (CPG). The Group has a wide geographical presence all over India and spanning 6 continents. Renowned brands like BSA, Hercules, Ballmaster, Ajax, Parry's, Chola, Gromor, Shanthi Gears and Paramfos are from the Murugappa stable. The organization fosters an environment of professionalism and has a workforce of over 32,000 employees.

With due consideration to factors like a) Elite business group of the nation, b) diversified business and dominant market share in respective segments, c) low client concentration risk, d) large diameters pipe – an import substitute, e) high growth Insurance business, f) big opportunity in Indian Railways, g) consistently free cash flow generating Co. h) dividend paying Company since 62 years, i) good corporate governance, j) sustainable RoE of 20%+, we recommend a "BUY" on the stock with a price target of Rs. 457 (SOTP valuation) implying an upside of 29 %, over a period of 9-12 months.

Company Performance

FY15 Consolidated performance

In FY15, TI registered yoy growth of 10% to touch consolidated revenue of Rs.9,698 cr. Consolidated Net Profit before Minority Interest stood at Rs. 684 Cr., a growth of 32% on yoy basis.

Q4FY15 Consolidated performance

During Q4FY15, TI has achieved yoy growth of 4% in consolidated revenue to touch Rs. 2,367 cr. Consolidated Net Profit before Minority Interest stood at Rs. 224 cr., a growth of 85% against the corresponding quarter in the previous year. Net profit after minority interest for the quarter ended 31st March 2015 was at Rs. 148 cr. against Rs. 69 Cr. for the corresponding quarter in the previous year.

Standalone performance

In Q4FY15, growth in revenues stood at 1.5% on yoy basis. On an annual basis, FY15 Standalone revenues witnessed yoy growth of 8.6% to touch Rs. 3,828 cr. Q4FY15 Standalone Profit before interest and tax grew by 2% during the quarter over the similar quarter last year. In Q4FY15, the Company had an extra ordinary income of 61.43 cr. exceptional item owing to largely sale of non-operating assets in real estate. In addition, the Company also had Rs.27.43 cr. in terms of voluntary retirement compensations paid to the various businesses during the year, partly during the quarter and partly earlier as well. With this the total profit before tax for the year stands at 155.15 Crores against 141 Crores last year and after tax is 120 cr. versus Rs. 94 Crores the previous year. The PAT for the quarter was higher by 153% at Rs. 77 cr.



Segmentwise performance

Bicycles

TI is one of the leading players in Indian bicycle market with around 22% market share during FY 2013- 14. Companys' BSA and Hercules brands have strong brand recall among Indian consumers. Bicylce division also offers products in fast growing fitness and recreation segment.

The Bicycle division registered a growth of 6% in volumes during the year compared with the previous year. The revenue for the year was higher by 11% at Rs. 1314 cr. driven by higher volume of specials and institutional sales. Profit before Interest and Tax witnessed yoy growth of 50% to touch Rs. 58 Cr. The revenue for the quarter was `292 Cr. as against `274 Cr. for the corresponding quarter in the previous year. Profit before Interest and Tax for the quarter was Rs. 13 Cr. as against Rs. 1 Cr. for the corresponding quarter in the previous year. **Going ahead, the Company's focus will be on fancy bicycles which are with gears and alloy bicycles as the demand for standard roadster Bicycles is declining. The Company's emphasis is going to be in product differentiation as well as in growing the high end market where the margins are good in the bicycle business. It has also started some exports of kids Bicycles which is likely to grow in the near future.**

Engineering Division

In the Engineering segment, the Company is a major player in the precision steel tube.

The Engineering division registered a yoy volume growth of 6% in Tubes and 2% in Cold Rolled Steel Strips. The revenue for the year was higher by 6% at Rs. 1,725 cr. Profit before Interest and Tax for the year was Rs. 103 cr., as against Rs. 136 cr. in the previous year. The drop in profits was due to additional costs associated with the new large diameter tubing facility, the revenue from which is expected to flow in 2015-16. The revenue for the quarter was at Rs. 404 cr. as against Rs. 424 cr., for the corresponding quarter in the previous year. Profit before Interest and Tax for the quarter was Rs. 24 cr., as against Rs. 42 cr. for the corresponding quarter in the previous year. **Going ahead, the new plant which is meant for non – automotive sectors would start to kick in revenues and go beyond breakeven would thereby improve profitability**

Metal Formed Division

The Company has strong position in the Chain business, Automotive Chains and are virtually leaders in the categories in which they are selling to two wheelers. Going forward, the Company intends to increase the presence in the aftermarket where the prices would be better because it is selling to the dealers. Additionally, the Industrial Chain business along with its subsidiary Sedis, has got some programs to further improve its profitability. There is also a Fine Blanking business which again is driven by lot of import substitution and has very precision components, so the value will be good in that business. So, broadly these are all the areas where we are entering into the current businesses where we are dependent on the domestic environment. The Company is trying to improve the market share and done significant cost reduction exercise which will be continued in the future as well. TI is also entering into newer areas like import substitution areas where it is not entirely dependent on the current market growth but dependent on ability to deliver products.

In this segment, the sale of automotive Chains to OEMs recorded yoy volume growth of 11%. The sale of Industrial Chains and Fine Blanked Components recorded a volume growth of 3% and 17% respectively on yoy basis. The doorframe segment volume was lower by 15% compared with the previous year due to decline in the sale of select models of major car manufactures. The revenue for the year was higher by 9% at Rs. 929 Cr. as against Rs. 851 cr. in the previous year. Profit before Interest and Tax for the year was Rs. 81 cr. as against Rs. 67 cr. in



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the previous year, a growth of 21%. The revenue for the quarter was Rs. 240 cr. as against Rs. 223Cr. for the corresponding quarter in the previous year. Profit before Interest and Tax for the quarter was Rs. 26 Cr. as against Rs. 14 Cr. for the corresponding quarter in the previous year.

TI India manufactures cold rolled formed sections for railway wagons and passenger coaches. Currently Railways is one of the smaller business divisions of TI India in terms of revenue contribution. The segment has been underperforming despite shortage of wagons in Indian Railways. New government has ambitious plans for expansion and modernization of Railways through active private participation.



Recommendation parameters for fundamental reports:

Buy – Absolute return of 20% and above

Accumulate – Absolute return between 15% and above

Book profits: On achieving the price target given in the research report for a particular Company or on a occurrence of a specific event leading to change in fundamentals of the Company recommended

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