

**COMPANY QUICK COMMENT**

The company reported ~17% y-y sales growth in Q2FY12 on a standalone basis, which was in line with our expectations. Net income on a standalone basis grew ~ 46% y-y with other income of INR130 mn. Excluding other income, PAT was below our estimates. The slowdown in the auto sector, especially passenger car segment, has impacted engineering and metal formed product business. Finance and insurance business were profitable in Q2. Our estimates, price target and rating are under review.

Price target: 184.0 INR

Price (02 Nov 2011): 142.1 INR

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Publish Date: 03 Nov 2011

**Auto slowdown impacts engineering and metal formed product business****Key takeaways from Q2FY12 results****Standalone business performance**

On a standalone basis, the company reported net sales of INR 8463 mn in line with our expectation. This represents ~ 17.3% y-y growth. Gross margin dropped 160 bps y-y but increased by 90 bps Q-Q as steel prices have started coming down. Standalone PAT was at INR 451 mn, representing 46.3% y-y growth. The company reported other income of INR 130 mn which is very high, so excluding other income, PAT is ~ 14.5% below our expectation.

**Slowdown in auto sector – impacted engineering and metal formed product business**

As per management, growth in the auto sector declined, particularly in the passenger car segment, which registered negative growth of 8% y-y in Q2FY12 against 18% y-y in Q1FY12. This impacted growth in turnover in the engineering business and metal formed product business. Motor cycles grew by 17% in Q2FY12 which to some extent negated the impact due to the slowdown in the passenger car segment.

**Segmental Performance**

*Cycle business* - Net sales grew at ~ 14.6%, better than our expectation but demand for cycles continued to be sluggish. This resulted in pressure on margin. Segment reported EBIT margin of 6.6%, lower by 30 bps Q-Q and 10 bps y-y. Volume in Q2 was flat Q-Q which was mainly on account of flood in East India and drop in secondary sales across regions. During the quarter, the company continued its retail thrust and opened 55 retail outlets under various format. Total number of retail formats reached 737 stores. ~ 25% of total revenue of this segment is derived through these company retail stores. Electric scooter business registered growth of 79% y-y in Q2FY12 on small base of Q2FY11 and 7% y-y for H1FY12.

*Engineering Business* - Net sales registered growth of ~ 18.7% which was in line with our expectations. Precision Tubes (cold drawn welded and electric resistance welded tubes) reported 11% volume growth, mainly affected by negative growth of passenger car segment. The tubular components segment recorded growth of 14% during the quarter.

*Metal Formed Products Business* – Net sales grew by ~ 19.4% which is lower than our expectation. This segment was reporting growth rates in the thirties over the past 6 quarters. Volumes of automotive chain grew by 16% and automotive chain by 17%. Export of industrial chains registered growth of 56% mainly due to higher sales of industrial chains in the European market and better off-take from OEMs in the US. The products for the railway segment grew significantly registering 86% growth in volumes. The door-frame segment volumes registered negative growth of 17%.

**Consolidated business performance**

On a consolidated basis, the company reported net sales of INR 15013 mn, growth of ~ 27% y-y. Net income was reported at INR 622 mn, which represents growth of ~ 21% y-y. Cholamandalam Investment and Finance (subsidiary) reported achieved PBT of INR 660 mn which represents ~ 69% y-y growth. Cholamandalam MS general Insurance (subsidiary) recorded significant growth of ~ 50% in gross written premium and achieved PBT of INR 78 mn. Financiere C 10 (overseas subsidiary manufacturing Industrial chains) grew by 23% y-y and reported net sales INR 1140 mn and PBT INR 30 mn.

Exhibit 1: Standalone performance

INR mn	Q2FY11	Q2FY12	y-y Increase	Q1FY12	Q-Q Increase
<b>Net Sales</b>	7,215	8,463	17%	8,694	-3%
Other Operating Income	38	56	48%	49	15%
Total Income from operation	7,253	8,519	17%	8,743	-3%
Cost of Goods Sold	4,352	5,248	21%	5,463	-4%
Gross Profit	2,900	3,271	13%	3,280	0%
<i>Gross margin</i>	40.2%	38.7%	(155) bps	37.7%	92 bps
Employees cost	580	664	15%	617	8%
Other Expenditure	1,486	1,775	19%	1,636	8%
<b>EBITDA</b>	834	833	0%	1,026	-19%
<i>EBITDA margin</i>	11.5%	9.8%	(173) bps	11.7%	(196) bps
Depreciation	165	182	10%	183	-1%
EBIT	670	651	-3%	843	-23%
Interest	150	176	18%	155	14%
Other income	-17	130	-880%	12	950%
PBT	503	605	20%	701	-14%
Provision for Taxation	195	153	-21%	201	-23%
<i>Effective tax rate</i>	38.7%	25.4%	(1332) bps	28.6%	(325) bps
<b>PAT</b>	309	451	46%	500	-10%
<i>PAT margin</i>	4.3%	5.3%	104 bps	5.7%	(42) bps
EPS (INR)	1.67	2.43	46%	2.69	-10%

Source: Company data, Nomura research

Exhibit 2: Consolidated Segmental Performance

INR mn	Q2FY11	Q2FY12	y-y Increase	Q1FY12	Q-Q Increase
<b>Revenue</b>					
Cycles/Components/EScooters	2793	3200	15%	3183	1%
Engineering	2985	3542	19%	3597	-2%
Metal Formed Products	1736	2072	19%	2328	-11%
Insurance	1471	2127	45%	1864	14%
Other Financial Services	3003	4170	39%	3634	15%
<b>EBIT</b>					
Cycles/Components/EScooters	188	211	12%	220	-4%
Engineering	272	286	5%	348	-18%
Metal Formed Products	220	256	17%	327	-22%
Insurance	77	78	1%	67	17%
Other Financial Services	395	660	67%	570	16%
<b>EBIT Margin</b>					
Cycles/Components/EScooters	6.7%	6.6%	(15) bps	6.9%	(33) bps
Engineering	9.1%	8.1%	(104) bps	9.7%	(160) bps
Metal Formed Products	12.7%	12.4%	(28) bps	14.1%	(168) bps
Insurance	5.3%	3.7%	(157) bps	3.6%	8 bps
Other Financial Services	13.1%	15.8%	268 bps	15.7%	15 bps

Source: Company data, Nomura research

Note: Ratings and Price Targets are as of the date of the most recently published report (<http://go.nomuranow.com/research/globalresearchportal>) rather than the date of this email.

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Issuer name	Ticker	Price	Price date	Stock rating	Disclosures
Tube Investments Of India	TI IN	142.1 INR	02 Nov 2011	Buy	

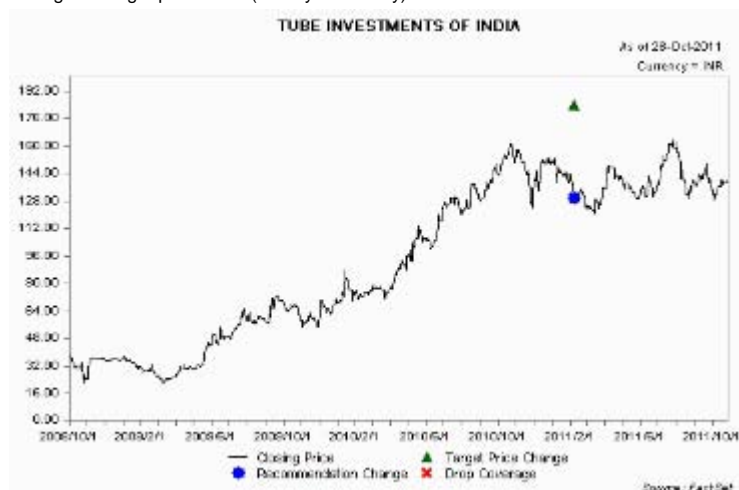
### Previous Rating

Issuer name	Previous Rating	Date of change
Tube Investments Of India	Not Rated	08 Feb 2011

### Tube Investments Of India (TI IN)

142.1 INR (02 Nov 2011) Buy

Rating and target price chart (three year history)



For explanation of ratings refer to the stock rating keys located after chart(s)

**Valuation Methodology** Our INR184 target price is based on a SOTP valuation. We use a 13.5x one-year forward P/E multiple on standalone one-year forward EPS of INR10.93 for the core business. The 60% stake in Cholamandalam Finance is valued at a 40% holding discount to its market cap of INR16,483mn. We believe the 13.5x one-year forward P/E multiple for the standalone business is justified as it has high-quality and high-ROCE bicycle business and engineering & metal-form businesses, where the company has a dominant market share. We have not assigned any value to the general insurance business, in which the company holds a 74% stake and market share of 2.3% in FY10.

**Risks that may impede the achievement of the target price** Slowdown in GDP growth in India: Growth of the auto industry in India largely depends on GDP growth; hence, any slowdown in GDP growth may have a negative impact on the company's prospects. Increase in interest rates in India: The auto-industry in India is sensitive to interest rates; hence, an increase in interest rates could impair the growth of the company.

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