

Tube Investments of India Ltd. (TI) – Q2FY13 results below expectations on the standalone front; financial subsidiaries continue their strong performance; maintain Buy rating with revised target price of ₹201

Tube Investments of India Ltd. (TI) Q2FY13 results were below expectations on the standalone front due to lower-than-expected sales volumes and continued cost pressure in the metal-formed products and engineering divisions. However, its financial services subsidiaries -- Cholamandalam Investment & Finance Company Ltd. (CIFCL) and Cholamandalam MS General Insurance Co. Ltd. -- posted a strong set of numbers.

Key Highlights

- TI's Q2FY13 consolidated net profit grew 21.7% YoY to ₹756.6mn on account of strong performance of its financial services subsidiaries: CIFCL and Cholamandalam MS General Insurance Co. Ltd.. CIFCL's net profit for the quarter grew 97.1% YoY to ₹690.0mn. CIFCL's net loan book for the quarter grew 40.5% YoY to ₹147.8bn while its GNPA and NPA continued to be low at 1.06% and 0.57%, reflecting quality growth. Cholamandalam MS General Insurance Company Ltd., a general insurance subsidiary of TI, registered a growth of 11% YoY in Gross Written Premium during the quarter. Its PAT grew 40% YoY to ₹100mn.
- On a standalone basis, TI's EBITDA declined 0.8% YoY and 8.9% QoQ to ₹826.2mn on account of (1) a sharp drop in performance in the metal formed products division due to lower sales volume, higher costs and pricing pressure and (2) lower sales volume and cost pressure in the Engineering division.
- The metal formed products division's EBIT declined 13.7% YoY and 5.9% QoQ to ₹221.3mn. In the chains segment of the metal formed products division, auto chains sales volumes were down 12% YoY due to automobile growth slowing down, industrial chains sales volumes were down 26% due to a general domestic industrial slowdown, and export volumes were flat YoY. Car doorframes sales volumes declined 2% YoY. The railway products division saw some sales volume growth but realisations and margins faced pressure due to competition.
- In the engineering division, precision steel tubes sales volumes declined 1% YoY due to automobile growth slowing down significantly. It also faced cost pressures from higher raw material costs and power & fuel, resulting in the Engineering division's EBIT declining 0.2% YoY and 11.2% QoQ to ₹285.4mn.
- In the bicycles division, sales volume grew 10% YoY on account of high volumes from institutional orders (Governments of Tamil Nadu and Karnataka primarily being the clients). The bicycles division's EBIT grew 4.9% YoY and 2.5% QoQ to ₹221.0mn.
- Standalone PAT for the quarter declined 17.6% YoY and 3.2% QoQ to ₹371.9mn

Outlook and valuations – On account of lower-than-expected sales volumes, we reduce our volume assumptions for FY13E and FY14E (Refer Table-1 on Page-2). We also incorporate interest costs from the Shanthi Gears acquisition. Consequently, we cut our FY13E and FY14E EPS by 11.7% and 12.9% to ₹8.9 and ₹9.5 respectively.

For our SOTP valuation of TI, we ascribe a higher valuation of 1.5x equity investment to TI's general insurance subsidiary -- Cholamandalam MS General Insurance Company Ltd -- from 1x earlier on account of significant traction in the business and achievement of sustainable profitability. We note that our valuation for TI's general insurance subsidiary has upside risks as the FDI limit of 26% in insurance is hiked to 49% over time. We have not ascribed any valuation to Shanthi Gears as we think strategic benefits from the acquisition would take at least two years to fructify. With the revision of earnings estimates downwards, higher valuation for TI's general insurance subsidiary and quarterly rollover of our 1 year forward SOTP value, our 1 year target price increases by ~6% to ₹201 per share. Our target price of ₹201 implies a potential upside of 19.6%. We maintain our Buy rating on TI.

Rating	CMP	Target	Upside %
BUY	168.0	201	19.6

Source: NSE, ABML Research

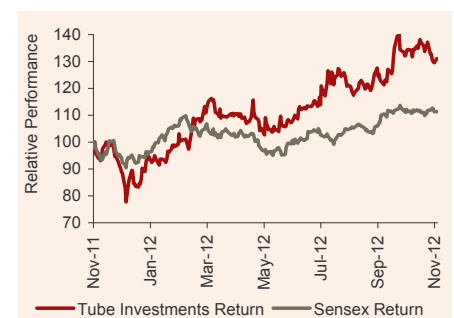
Company Data	
BSE Code	504973
NSE Code	TUBEINVEST
Equity Capital (₹ mn)	372.9
Face Value (₹)	2.0
Market Cap (₹ bn)	31.3
Avg Daily Volume (Qty)	148196
52 week H/L (₹)	183/98

Source: NSE, BSE

Shareholding (%)			
Holders	Sep-12	Jun-12	Mar-12
Promoters	48.13	48.14	48.15
FII's	7.90	7.95	8.44
MFs/Banks & FI's	15.59	15.29	15.42
Public & Others	28.38	28.62	27.99

Source: BSE

Chart: Tube Investment vs. Sensex



Source: Capitaline

Analyst Details

Akhil Jain
 022-42333540
 Akhil.jain@adityabirla.com

Standalone Financial Snapshot (₹ mn)

In ₹ mn	Sales	YoY(%)	EBITDA	YoY(%)	PAT	YoY(%)	EPS(₹)	YoY(%)	EBITDA (%)	RoE(%)	P/E(x)	EV/EBITDA(x)	P/B(x)
FY11	29,811	26.4	3,395	29.6	1,491	40.3	8.0	39.6	11.4	15.9	20.9	11.3	3.1
FY12	34,902	17.1	3,668	8.1	1,801	20.8	9.7	20.4	10.5	16.6	17.4	10.2	2.8
FY13E	37,690	8.0	3,857	5.2	1,654	-8.2	8.9	-8.2	10.2	13.8	18.9	11.6	2.6
FY14E	42,424	12.6	4,372	13.3	1,768	6.9	9.5	6.9	10.3	13.5	17.7	10.6	2.4

Source: ABML Research, company data

Table 1: Change in TI's FY13E and FY14E sales volume assumptions

Particulars	FY13E (earlier)	FY13E (revised)	Change (%)	FY14E (earlier)	FY14E (revised)	Change (%)
Precision welded tubes (in tonnes)	156746	149620	-4.5	180857	169294	-6.4
Chains (in lac ESS feet)	794	782	-1.4	952	939	-1.4
Car doorframes (sets)	955021	955021	0.0	1031422	1012322	-1.9
Railway sections (sets)	3194	3136	-1.8	4153	4077	-1.8
Cold rolled strips	56855.4	54960.2	-3.3	61403.8	58257.8	-5.1

Source: Company, ABML Research

Standalone Financial Results (Q2FY13) – Tube Investments

Quarterly Results (₹ in mn)	Q2FY13	Q2FY12	YoY%	Q1FY13	QoQ%
Net Sales	9,294.2	8,519.2	9.1	9,148.0	1.6
Total Expenses	8,468.0	7,686.4	10.2	8,241.0	2.8
Inc / Dec in stock	59.5	(231.7)	(125.7)	(239.2)	(124.9)
Raw material consumed	5,344.9	5,086.3	5.1	5,351.2	(0.1)
Employee cost	718.3	663.8	8.2	672.8	6.8
Purchase of Traded Goods	387.1	393.5	(1.6)	559.4	(30.8)
Other Expenses	1,958.2	1,774.5	10.4	1,896.8	3.2
EBITDA	826.2	832.8	(0.8)	907.0	(8.9)
Depreciation	193.1	181.8	6.2	188.5	2.4
Non-operating income	119.1	130.2	(8.5)	32.4	267.6
EBIT	752.2	781.2	(3.7)	750.9	0.2
Interest	251.8	176.4	42.7	196.5	28.1
Extraordinary Income/(loss)	0.0	0.0		0.0	
PBT	500.4	604.8	(17.3)	554.4	(9.7)
Tax	128.5	153.4	(16.2)	170.1	(24.5)
PAT	371.9	451.4	(17.6)	384.3	(3.2)
Adjusted PAT	371.9	451.4	(17.6)	384.3	(3.2)
Equity	372.9	371.8	0.3	372.7	0.1
EPS	2.0	2.4	(17.9)	2.1	(3.3)
Adjusted EPS	2.0	2.4	(17.9)	2.1	(3.3)

Key Ratios (%)

EBITDA Margin	8.9	9.8		9.9	
Interest/sales	2.7	2.1		2.1	
Tax/PBT	25.7	25.4		30.7	
NPM	4.0	5.3		4.2	

Source: Company data, ABML Research

Risk factors

- Lower-than-expected volume growth
- Volatility in raw material prices that is not passed on to customers
- Slowdown in the automobile sector

Recommendation summary

Date	Reports	Rating	Last Closing Price (₹)	Target Price (₹)	Upside / Downside %
09-03-12	Initiating Coverage	Buy	139.3	191	37.1
14-05-12	Result Update (Q4FY12)	Buy	134.5	191	42.1
10-08-12	Result Update (Q1FY13)	Buy	154.7	190	22.8
16-11-12	Result Update (Q2FY13)	Buy	168.0	201	19.6

Source: ABML Research

Standalone Financials – Tube Investments

Profit & Loss					Balance Sheet				
In ₹ mn	FY11	FY12	FY13E	FY14E	In ₹ mn	FY11	FY12E	FY13E	FY14E
Net sales	29,811	34,902	37,690	42,424	Equity capital	371	373	373	373
YoY (%)	26	17	8	13	Reserves	9,543	10,777	11,799	12,829
Total expenses	26,417	31,234	33,832	38,052	Net worth	9,914	11,150	12,172	13,202
Inc/dec in stock	(475)	(378)	0	0	Total borrowings	7,238	7,149	13,789	15,389
Raw material cost	18,480	21,996	23,030	25,985	Deferred tax liability	518	481	582	689
Staff cost	2,416	2,592	2,877	3,252	Total liabilities	17,670	18,780	26,543	29,280
Operating expenses	3,229	3,906	4,275	4,809	Asset Block	5,921	6,449	8,903	11,116
SG&A expenses	2,767	3,118	3,650	4,006	Investments	9,106	9,302	14,312	14,312
EBIDTA	3,395	3,668	3,857	4,372	Goodwill	0	0	0	0
YoY (%)	30	8	5	13	Current assets	8,826	10,674	11,092	12,516
EBIDTA (%)	11.4	10.5	10.2	10.3	Inventories	3,877	4,095	4,635	5,213
Depreciation	691	761	796	903	Debtors	3,734	4,359	4,811	5,419
Non-operating income	108	306	327	374	Cash	136	859	177	229
EBIT	2,811	3,213	3,388	3,843	Loans and advances	1,079	1,361	1,470	1,656
Interest	604	762	1,047	1,386	Current liabilities	5,647	7,234	6,890	7,655
Extraordinary income/(exp.)	206	0	0	0	Provisions	536	410	873	1,008
PBT	2,413	2,451	2,341	2,457	Net current assets	2,644	3,029	3,329	3,853
(-) Tax	716	650	687	689	Miscellaneous expenses	0	0	0	0
Current Tax	668	645	586	583	Total assets	17,670	18,780	26,543	29,280
Deferred Tax	105	(37)	101	106	Cash Flow (in ₹ mn)	FY11	FY12E	FY13E	FY14E
Prior period adjustment	(56)	42	0	0	Net profit (before MI)	1,697	1,801	1,654	1,768
Tax/ PBT (%)	30	27	29	28	Depn and w/o	691	761	796	903
PAT	1,697	1,801	1,654	1,768	Change in working cap	(153)	337	(982)	(471)
YoY (%)	109	6	(8)	7	Non-operating income	108	306	327	374
Adjusted net profit	1,491	1,801	1,654	1,768	Others	(102)	(37)	101	106
YoY (%)	40	21	(8)	7	Operating cash flow	2,025	2,556	1,242	1,932
Key Ratios	FY11	FY12E	FY13E	FY14E	Non-operating income	108	306	327	374
Diluted EPS (₹)	9.1	9.7	8.9	9.5	Capex	(659)	(1,198)	(3,250)	(3,116)
Adjusted diluted EPS (₹)	8.0	9.7	8.9	9.5	Investments	(1,611)	(196)	(5,010)	0
CEPS (₹)	12.9	13.8	13.1	14.3	Others	-41	-92	0	0
Book value (₹)	53.4	59.8	65.3	70.8	Investing cash flow	(2,203)	(1,180)	(7,933)	(2,742)
Dividend per share (₹)	3.0	3.0	3.0	3.5	Dividend	(639)	(632)	(632)	(738)
Net debt-equity (x)	0.7	0.6	1.1	1.1	Equity	639	37	0	0
ROCE (%)	11.2	12.8	10.4	9.8	Debt	180	(89)	6,640	1,600
ROE (%)	15.9	16.6	13.8	13.5	Others	48	30	(0)	0
Valuations	FY11	FY12E	FY13E	FY14E	Financing cash flow	228	(654)	6,008	862
PE (x)	20.9	17.4	18.9	17.7	Net change in cash	50	723	(683)	53
Cash PE (x)	13.1	12.2	12.8	11.7	Opening cash	86	136	859	177
Price/book value (x)	3.1	2.8	2.6	2.4	Closing cash	136	859	177	229
Dividend yield (%)	1.8	1.8	1.8	2.1					
P/sales (x)	1.0	0.9	0.8	0.7					
EV/sales (x)	1.3	1.1	1.2	1.1					
EV/EBITDA (x)	11.3	10.2	11.6	10.6					

Source: ABML Research, company data

Research Team

Vivek Mahajan	Hemant Thukral
Head of Research	Head – Derivatives Desk
022-42333522	022-42333483
vivek.mahajan@adityabirla.com	hemant.thukral@adityabirla.com

Fundamental Team

Avinash Nahata	Head of Fundamental Desk	022-42333459	avinash.nahata@adityabirla.com
Akhil Jain	Metals & Mining / Mid-caps	022-42333540	akhil.jain@adityabirla.com
Sunny Agrawal	FMCG / Cement / Mid-caps	022-42333458	sunny.agrawal@adityabirla.com
Sumit Jatia	Banking & Finance	022-42333460	sumit.jatia@adityabirla.com
Shreyans Mehta	Construction/Real Estate	022-42333544	shreyans.m@adityabirla.com
Dinesh Kumar	Information Technology/Auto	022-42333531	dinesh.kumar.k@adityabirla.com
Pradeep Parkar	Database Analyst	022-42333597	pradeep.parkar@adityabirla.com

Quantitative Team

Rizwan Khan	Technical and Derivative Strategist	022-42333454	rizwan.khan@adityabirla.com
Jyoti Nangrani	Sr. Technical Analyst	022-42333454	jyoti.nangrani@adityabirla.com
Raghuram	Technical Analyst	022-42333537	raghuram.p@adityabirla.com
Rahul Tendolkar	Derivatives Analyst	022-42333532	rahul.tendolkar@adityabirla.com
Amit Somani	Derivative Analyst	022-42333532	amit.somani@adityabirla.com

Advisory Support

Indranil Dutta	Advisory Desk – HNI	022-42333494	indranil.dutta@adityabirla.com
Suresh Gardas	Advisory Desk	022-42333535	suresh.gardas@adityabirla.com
Sandeep Pandey	Advisory Desk	022-30442104	sandeep.pandey@adityabirla.com

ABML research is also accessible in Bloomberg at ABMR

Our Rating Methodology

Stock Ratings	Absolute Returns (R)
Buy	$R > 15\%$
Accumulate	$5\% < R \leq 15\%$
Neutral	$-5\% < R \leq 5\%$
Reduce	$-10\% < R \leq -5\%$
Sell	$R \leq -10\%$

Disclaimer:

This document is not for public distribution and is meant solely for the personal information of the authorised recipient. No part of the information must be altered, transmitted, copied, distributed or reproduced in any form to any other person. Persons into whose possession this document may come are required to observe these restrictions. This document is for general information purposes only and does not constitute an investment advice or an offer to sell or solicitation of an offer to buy / sell any security and is not intended for distribution in countries where distribution of such material is subject to any licensing, registration or other legal requirements.

The information, opinion, views contained in this document are as per prevailing conditions and are of the date of appearing on this material only and are subject to change. No reliance may be placed for any purpose whatsoever on the information contained in this document or on its completeness. Neither Aditya Birla Money Limited (ABML) nor any person connected with it accepts any liability or loss arising from the use of this document. The views and opinions expressed herein by the author in the document are his own and do not reflect the views of Aditya Birla Money Limited or any of its associate or group companies. The information set out herein may be subject to updating, completion, revision, verification and amendment and such information may change materially. Past performance is no guarantee and does not indicate or guide to future performance.

Nothing in this document is intended to constitute legal, tax or investment advice, or an opinion regarding the appropriateness of any investment, or a solicitation of any type. The contents in this document are intended for general information purposes only. This document or information mentioned therefore should not form the basis of and should not be relied upon in connection with making any investment. The investment may not be suited to all the categories of investors. The recipients should therefore obtain your own professional, legal, tax and financial advice and assessment of their risk profile and financial condition before considering any decision.

Aditya Birla Money Limited, its associate and group companies, its directors, associates, employees from time to time may have various interests/ positions in any of the securities of the Company(ies) mentioned therein or be engaged in any other transactions involving such securities or otherwise in other securities of the companies / organisation mentioned in the document or may have other potential conflict of interest with respect of any recommendation and / related information and opinions.

Analyst holding in the stock: NIL